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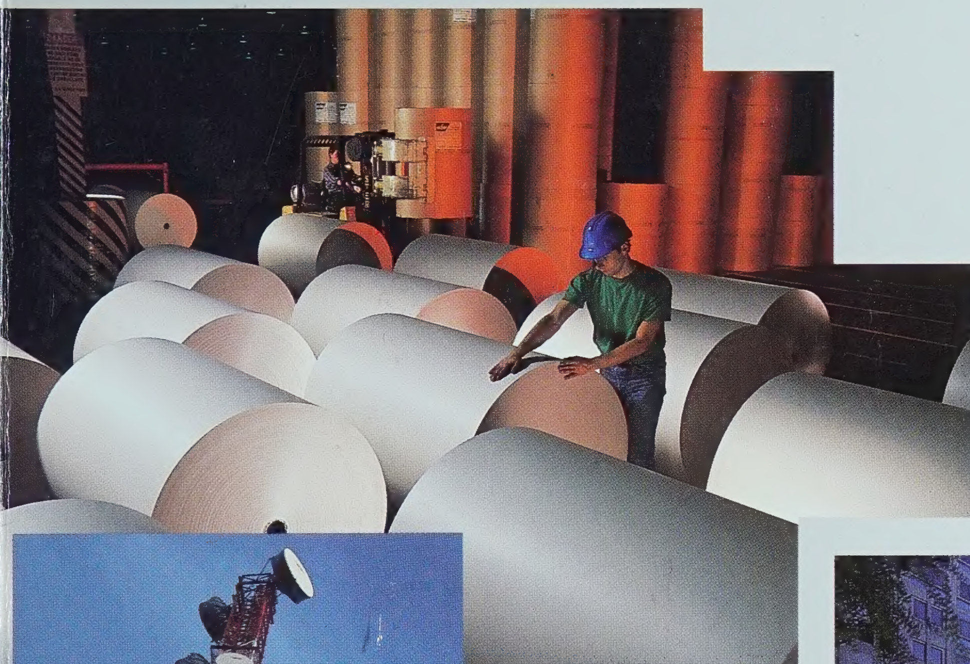
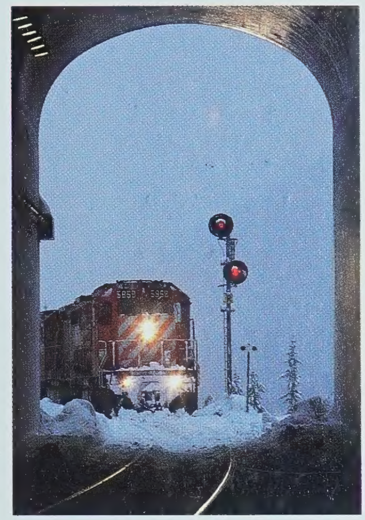
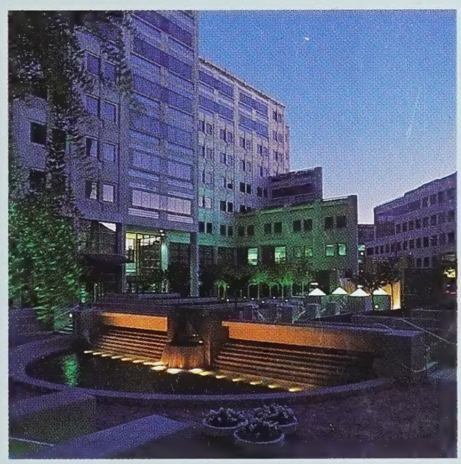
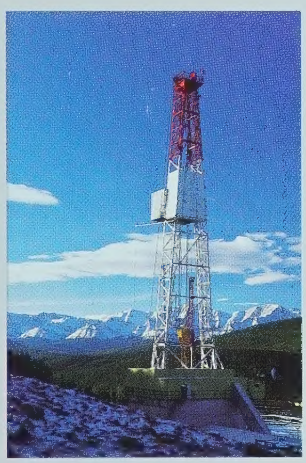
Canadian Pacific Limited









1988 Annual Report

Contents

1989 Annual Meeting

The Annual Meeting of Shareholders is to be held on Wednesday, May 3, 1989, at The Palliser Hotel, Calgary, Alberta, at nine-thirty a.m., Calgary time.

Highlights

		1988	1987	1986
		(dollars in millions, except amounts per share)		
Consolidated Data				
Income Items	Revenues	**$ 12,016.3**	$ 12,208.6	$ 15,113.8
	Net income from:			
	Transportation and Waste Services	**$ 246.8**	$ 227.4	$ 92.7
	Energy	**122.5**	158.7	56.7
	Forest Products	**259.6**	170.0	29.2
	Real Estate and Hotels	**102.3**	50.5	43.8
	Telecommunications and Manufacturing	**19.5**	14.6	(5.2)
	Discontinued Businesses	**23.8**	15.5	(67.1)
	Net income before extraordinary items	**774.5**	636.7	150.1
	Extraordinary items	**45.6**	189.6	(230.4)
	Net income	**$ 820.1**	$ 826.3	$ (80.3)
Per Ordinary Share	Net income			
	– before extraordinary items	**$ 2.50**	$ 2.12	$ 0.50
	– after extraordinary items	**$ 2.65**	$ 2.75	$ (0.27)
	Market Price – High	**$ 24⅞**	$ 30¼	$ 20½
	(Toronto Stock – Low	**$ 19½**	$ 17¼	$ 14
	Exchange) – Close	**$ 22**	$ 20⅝	$ 17⅞
	Dividends	**$ 0.68**	$ 0.54	$ 0.48
	Shareholders' equity	**$ 23.00**	$ 21.20	$ 19.16
Ordinary Share Capital	Number of shares outstanding (in millions)			
	– At year end	**316.9**	302.8	299.5
	– Average for the year	**309.1**	300.5	298.3
	Number of shareholders at year end	**69,136**	69,016	78,892
Rates of Return	Average capital employed	**8.8%**	8.1%	4.7%
	Average shareholders' equity	**11.3%**	10.4%	2.5%
	Cash from operations	**$ 1,611.7**	$ 2,126.9	$ 1,330.2
	Capital expenditures and real estate investments	**$ 1,863.9**	$ 1,254.7	$ 1,787.8
	Total assets	**$ 17,650.8**	$ 18,000.7	$ 17,698.7
	Debt:equity	**32:68**	38:62	43:57
	Average number of employees	**76,400**	85,400	93,800
Non-Consolidated Data				
	Net income			
	– before extraordinary items	**$ 439.4**	$ 381.1	$ 252.9
	– after extraordinary items	**$ 408.8**	$ 541.8	$ 2.0
	Per Ordinary Share:			
	Net income			
	– before extraordinary items	**$ 1.42**	$ 1.27	$ 0.85
	– after extraordinary items	**$ 1.32**	$ 1.80	$ 0.01
	Debt:equity	**17:83**	22:78	24:76

Building on our strengths

The History

The 1980's ushered in an economic environment characterized by rapid and fundamental change. The globalization of trade and finance, currency fluctuations, accelerated technological and regulatory change and industry consolidation have challenged [illegible]. Canadian Pacific [illegible] re-affirming [illegible] create value for [illegible] through the ownership, [illegible] management and strategic [illegible] businesses in North [illegible] abroad.

[illegible] an emphasis on earnings [illegible], financial stability and [illegible] returns, Canadian Pacific [illegible] the prospects, competi[illegible] growth potential of its [illegible] the parent company [illegible] was directed towards [illegible] the allocation of resources, [illegible] efficiency, manage[illegible] and strategic direction.

The Achievements

Much has been achieved. Canadian Pacific is a more focused and effective management company capable of yielding higher returns. Restructuring included the divestment of operations having limited earnings potential, uncertain growth prospects, high levels of debt, significant exposure to cyclical fluctuations or others not consistent with Canadian Pacific's strategic mix of businesses. It also included the expansion of existing core operations and the addition of new businesses which are competitively strong, growth-oriented, solidly-financed and well-managed. Restructuring enhanced Canadian Pacific's growth potential, redressed the balance sheet and improved the quality of earnings. In each core or emerging core area, Canadian Pacific's operations are now characterized by strong market positions, excellent resource bases, and opportunities for growth.

The Core Businesses

Transportation

In Transportation, Canadian Pacific has an increasingly integrated Canadian-based transportation system with leading positions in rail, container shipping and trucking. Canadian Pacific is committed to enhancing the competitiveness of its transportation core and to increasing the return on capital employed in these operations. The emphasis will be on the effective management of the large asset base and further improvements in productivity and cost control. The Company will focus also on the development of expansion opportunities in related markets or other selected areas where Canadian Pacific's transportation skills can be utilized efficiently.

Energy

In Energy, major initiatives were taken to reinforce Canadian Pacific's established and profitable positions. PanCanadian's expanded reserves and working interests ensure that Canadian Pacific is well-positioned to benefit from market recovery in this sector. Strategy will continue to focus on the further expansion and development of PanCanadian's reserve base in Canada and on market opportunities which may contribute to improved returns.

In Coal, Fording is a low cost producer of metallurgical and thermal coal with outstanding reserves, marketing expertise and efficient management. Strategic initiatives will continue to be directed towards further market diversification including the development of a mine-site power plant.

Forest Products

The merger in 1988 of a strengthened CIP with Great Lakes Forest Products enables Canadian Pacific Forest Products to realize organizational and operational economies associated with combined operations. The company is one of North America's leading integrated producers with major positions in newsprint and groundwood specialties, market pulp and fine paper as well as significant interests in primary packaging, converted products, tissue and lumber. The company's fibre base ranks among the largest in North America.

Canadian Pacific Forest Products is focusing on identifying growth opportunities, improving its quality of earnings and strengthening its competitive position. The current expansion includes the construction of low-cost, world-scale fine paper and newsprint capacity using state-of-the-art technology. Concurrently, the company's capital expenditure program is targeting the modernization of existing mills – improving their cost structure, enhancing product quality and, in some instances, increasing capacity. With the completion of these projects, Canadian Pacific Forest Products will be well-positioned to capitalize on opportunities to strengthen further its product mix, to diversify geographically and to benefit from growth in the North American forest products industry.

Real Estate and Hotels

Through the attractive real estate holdings of Marathon and other companies within the CP group, Canadian Pacific is uniquely positioned with a portfolio of major development sites in the downtown cores of Toronto, Montreal, Vancouver and other Canadian cities. The development of these holdings will allow Marathon to expand significantly its interests in quality office, retail and commercial properties. Coupled with this emphasis on expansion through developments in key locations, the planned disposition of non-strategic real estate assets will generate significant benefits in the near term and will contribute to the financing of major projects.

In CP Hotels and Resorts, the acquisition of CN Hotels and a major renovation and building program reinforced Canadian Pacific's leading market position in Canada. With quality heritage city centre and unique resort properties, CP Hotels is particularly well-positioned in key metropolitan and regional markets. In the years ahead, strategic initiatives will include measures to increase returns through improved capital management, selective expansion and marketing programs designed to strengthen occupancy levels and room rates.

Industrial Products and Services

AMCA initiated significant measures to redress its balance sheet and to rationalize its operations in order to concentrate on a few segments with attractive growth prospects. The company now has an improved mix of businesses, a focused management team and a strengthened equity base. With earnings recovery well under way, AMCA is focusing on expansion opportunities in its main business lines – namely, pre-engineered buildings and industrial products.

The Emerging Cores

CP Telecommunications is positioning itself as the second force in the Canadian telecommunications market offering an increasing range of data, messaging and voice services. The company is building on its historic industry involvement, Canada-wide operating licences, existing state-of-the-art infrastructure and its large customer base. Through acquisitions and strategic alliances, Canadian Pacific will further restructure and expand its interests in the rapidly growing telecommunications market.

Through Laidlaw Transportation Limited, Canadian Pacific participates in two growth-oriented, recession-resistant businesses – waste management and school busing. In both areas, Laidlaw will capitalize on increasing market demand for professional services. In waste management, Laidlaw will benefit from its expanded solid and chemical waste landfill capacity as well as attractive opportunities in transfer and collection activities. Industry consolidation will favour recognized market leaders such as Laidlaw which have technical expertise and financial strength. In school busing, industry consolidation and privatization will also permit Laidlaw to expand further and strengthen its leadership position in North America. Canadian Pacific will participate with Laidlaw in identifying new opportunities in these and other growth-oriented service industries.

Management Commitment

Management is committed to providing superior returns to shareholders by achieving higher and better quality earnings and maintaining a strong financial position. Consistent with our stature as one of North America's most respected companies, Canadian Pacific's affairs will continue to be conducted with the highest ethical standards, respectful of the environment, our employees and their safety, the customers which we serve and the communities of which we are a part. This is our obligation. Together, we will build on past achievements.

To the Shareholders

The past year was one of significant progress in achieving continued growth in earnings and undertaking further strategic initiatives to reposition Canadian Pacific.

Consolidated net income before extraordinary items reached \$774.5 million, an increase of \$137.8 million or 22% over 1987, and earnings per Ordinary share of \$2.50 were up 18% over 1987. After extraordinary items, earnings were \$820.1 million, or \$2.65 per Ordinary share, compared with \$826.3 million, or \$2.75 per share, in 1987.

The better results in 1988 reflected not only the many steps taken over the past few years to refocus Canadian Pacific and improve operating efficiency, but also the generally favourable business conditions as the economies of the industrialized nations outperformed all expectations. Markets for forest products were particularly buoyant, providing substantially increased earnings to Canadian Pacific Forest Products. Although unfavourable developments included falling crude oil and natural gas prices, which caused a significant decline in income from PanCanadian Petroleum, and the impact of the prairie drought on CP Rail traffic towards year end, AMCA International benefited from significantly improved business activity, Fording Coal from higher shipments, increased productivity and some price improvement, and CP Hotels from their extensive renovation and expansion program. Results in 1988 also benefited from real estate sales.

On a non-consolidated basis, CP Limited's earnings before extraordinary items amounted to \$439.4 million, up 15% over 1987, with earnings per Ordinary share increasing 12% to \$1.42.

While still below desired levels, the Company's rates of return on average capital employed and shareholders' equity showed further improvement in 1988, amounting to 8.8% and 11.3%, respectively. The balance sheet at the end of 1988 was stronger with lower debt levels and increased shareholders' equity producing a more favourable debt to equity ratio. The Company raised its quarterly dividend rate during 1988 from \$0.15 to \$0.19 per Ordinary share, a 58% increase since mid 1987.

One of the year's highlights was the completion by CP Rail, on time and within budget, of its four-year Rogers Pass project in British Columbia. This major undertaking involved the construction of two tunnels, one of which is the longest in North America, and a total of 21 miles of new second main track through very difficult terrain. The project capped more than ten years of grade reduction and double tracking work which has significantly increased the capacity of and improved efficiency on the heavy density Calgary to Vancouver route. The Directors wish to record their appreciation of the skill and dedication of the engineers and construction workers who brought a dream to reality. The Rogers Pass Line will have its official inauguration May 4, 1989.

The Company's restructuring program launched in 1985 produced several important accomplishments during the past year.

Divestment of businesses not considered part of long range growth plans continued with the sale of Canadian Pacific's 53.8% interest in Algoma Steel in August for \$246.2 million. CP Limited also sold its interest in Steep Rock Resources, while Processed Minerals, a wholly-owned subsidiary in the United States, sold its Carey Salt operation.

In order to reduce exposure to volatile bulkshipping markets, nineteen vessels were sold during 1988 for almost \$200 million, leaving a fleet of eight owned tankers and bulk carriers employed primarily in the specialized chemical and vegetable oil cargo markets.

The Company is also seeking to dispose of its interest in Soo Line Corporation, as it is not part of the Company's long range North American railway strategy.

During the year Canadian Pacific also took advantage of several opportunities. In its desire to expand in non-cyclical, high growth business sectors of North America, CP Limited acquired for \$499.3 million 47.2% of the voting shares of Laidlaw Transportation Limited. Laidlaw is the largest school bus operator and the third largest solid and chemical waste service company in North America. With assets of \$2 billion, Laidlaw's earnings per share increased by an average of 45% per annum in the last five years and the company is committed to continue to expand its core businesses in North America and Europe.

W.W. Stinson, President and
Chief Executive Officer;
Robert W. Campbell, Chairman.

Late in 1988 Canadian Pacific increased its ownership of CNCP Telecommunications to 100% by purchasing its partner's interest for $235.0 million. It is Canadian Pacific's intention to develop CNCP into the major, second force in the long distance Canadian telecommunications industry, another high growth sector.

Additional steps taken to strengthen existing core businesses included PanCanadian Petroleum's significant acquisitions of conventional oil producing properties and additional interests in the Syncrude and OSLO oil sands projects for a total cost of $450.4 million during the year. PanCanadian also completed a successful year of exploration and development activities.

CIP Inc. and Great Lakes Forest Products Limited merged in June to form Canadian Pacific Forest Products Limited. The merger has created one of Canada's largest and most diversified forest products companies and a world-scale competitor in newsprint and pulp with expanded marketing and customer service capabilities. CP Forest Products is in the midst of an extensive program to modernize and expand its capacity for newsprint and white papers.

Canadian Pacific Hotels, which was already embarked on a major renovation and expansion program, solidified its position in the Canadian market with the purchase effective April 1, 1988, of the nine-property CN Hotel chain for $265.5 million. This extended CP Hotels' geographic coverage to all major Canadian cities and added important resort locations as well.

AMCA International's restructuring program progressed significantly during 1988 and its equity base increased by more than $300 million through the issue of additional common shares. Canadian Pacific's participation in the equity issues resulted in its ownership of AMCA's common shares increasing from 50.6% to 55.4%.

In other areas, Marathon Realty continued with the rationalization of its property and land portfolio, completed several new office building and shopping centre projects and has approximately 4 million square feet under construction for completion through 1991. Fording Coal's joint venture Genesee coal mine project in Alberta is advancing toward a commercial start-up in the fall of 1989.

These strategic moves taken in recent years underline Canadian Pacific's determination to enhance value for shareholders and will result in a more stable earnings base from the main activities of the Company. Nevertheless, earnings will also be influenced by external conditions. Forest product markets are expected to remain generally healthy in 1989. However, world oil prices will likely continue to fluctuate, and railway grain traffic will be reduced in the first half of 1989 by the effects of last summer's drought. Economic forecasts for Canada and the United States indicate slower growth and higher interest rates in 1989.

In conclusion, the Directors wish to express their sincere appreciation to all employees, whose efforts, commitment and skills remain vital to the achievement of the Company's goals.

Robert W. Campbell
Chairman

W.W. Stinson
President and
Chief Executive Officer

Montreal, March 13, 1989

Canadian Pacific in Profile

Canadian Pacific Limited directly and through subsidiaries and affiliates operates principally in transportation and waste services, natural resource development, manufacturing, real estate, hotel operations, and telecommunications in Canada and internationally.

Transportation and Waste Services

(in millions)	**1988**	1987
Revenues	**$4,311.7**	$4,423.2
Net Income after Minority Interest	**$ 246.8**	$ 227.4

	Percentage Ownership
CP Rail	100%
Soo Line Corporation	55.8%
CP Ships	100%
CP Trucks	100%
Laidlaw Transportation Limited	11.8% (47.2% voting)

Energy

(in millions)	**1988**	1987
Revenues	**$1,027.3**	$ 988.7
Net Income after Minority Interest	**$ 122.5**	$ 158.7

	Percentage Ownership
PanCanadian Petroleum Limited	87.1%
Fording Coal Limited	100%

Employees 1988	1987	Products/services/markets	Locations
23,900	24,600	Provides rail and intermodal transportation of agricultural, fabricated and bulk commodities over a 14,300-mile railway system serving most of the principal centres of Canada and connecting with major U.S. railroads.	Head office: Montreal. Business unit offices: Toronto, Vancouver. Operating and sales centres across Canada; sales offices in the United States, Europe and Asia.
4,800	5,600	Provides rail service transporting resource and manufactured commodities over 5,800 miles of line in 12 midwestern states.	Head office: Minneapolis, Minnesota.
800	1,900	Centennial Shipping Limited holds 57% of Canada Maritime Limited, which provides container and ro/ro services between Montreal, northern Europe and the Mediterranean.	Head office: Hamilton, Bermuda.
		Canadian Pacific (Bermuda) Limited owns six chemical tankers which are principally employed on semi-liner services for the carriage of vegetable oil and chemicals, and also owns two bulk carriers.	Head office: Hamilton, Bermuda.
6,400	6,500	Canadian Pacific Express & Transport Ltd. offers a full range of road transport services, including less-than-truckload, parcel delivery, specialized bulk systems, and truckload throughout the U.S. and Canada.	Head office: Toronto. More than 200 terminal locations throughout Canada and 7 terminals in the eastern and midwestern regions of the United States.
		CanPac International Freight Services engages in customs brokerage, international freight forwarding, and warehousing.	Head office: Montreal. Branch offices and operations in Nova Scotia, Quebec, Ontario, Manitoba, Alberta and British Columbia, and agents world-wide.
29,600	22,200	Provides passenger services, including school bus transportation, solid and chemical waste services, and trucking and tree and lawn maintenance services.	Head office: Burlington, Ontario. Laidlaw is the largest school bus operator in North America serving three Canadian provinces and seventeen states. Waste services are provided in six provinces and twenty-four states.
1,500	1,500	Is one of the largest Canadian-owned hydrocarbon businesses engaged in the exploration for and production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. Products are sold primarily in Canadian and U.S. markets.	Head office: Calgary. Other offices: Denver and Houston. Exploration and development activities are primarily in Western Canada.
1,200	1,300	Mines and processes metallurgical and thermal coal for markets including blast furnace steel producers, utilities and other coal consumers world-wide.	Head office: Calgary. Mine sites in Alberta and southeastern British Columbia.

Canadian Pacific in Profile

Forest Products

(in millions)	1988	1987
Revenues	**$2,996.7**	$2,784.2
Net Income after Minority Interest	**$ 259.6**	$ 170.0

	Percentage Ownership
Canadian Pacific Forest Products Limited	79.7%

Real Estate and Hotels

(in millions)	1988	1987
Revenues	**$ 845.8***	$ 663.0*
Net Income after Minority Interest	**$ 102.3***	$ 50.5*

	Percentage Ownership
Marathon Realty Company Limited	100%
Canadian Pacific Hotels Corporation	100%

Telecommunications and Manufacturing

(in millions)	1988	1987
Revenues	**$2,278.8**	$1,956.5
Net Income after Minority Interest	**$ 19.5**	$ 14.6

	Percentage Ownership
CP Telecommunications	100%
AMCA International Limited	55.4%
Syracuse China Corporation	100%
Processed Minerals Incorporated	100%

*Includes gains on CP Rail land sales of $55.6 million ($42.3 million after tax) in 1988 and $2.7 million ($2.3 million after tax) in 1987.

Employees 1988	1987	Products/services/markets	Locations
15,200	15,900	Is one of the world's largest producers and marketers of newsprint. Also produces pulp, white paper, packaging materials, tissue products, logs, lumber and building materials. These products are sold in more than 40 countries.	Executive offices: Montreal, Thunder Bay and Vancouver. Facilities are located in Newfoundland, Nova Scotia, New Brunswick, Quebec, Ontario, Alberta, British Columbia and the state of Washington.
1,400	1,100	Develops, owns and manages income-producing properties including shopping centres, and office, industrial and aviation-related buildings. Also develops business parks as well as other commercial lands.	Head office: Toronto. Properties are located across Canada and in the United States. Regional offices are in Toronto, Vancouver, Calgary, Montreal, Dallas, San Francisco, Atlanta and Chicago.
6,100	4,800	Operates 25 hotels with 11,300 rooms. Of these hotels 15 are owned, with the balance leased or managed.	Head office: Toronto. Hotels are in city centre and resort locations across Canada and in West Germany.
3,100	3,400	Provides a comprehensive communications service covering a full range of voice, data, text and messaging services across Canada, with connections to the U.S. and overseas.	Head office: Toronto. Regional offices: Vancouver, Toronto and Montreal. Operations centres and sales offices across Canada.
11,300	9,500	Is a broad-based corporation providing manufactured products and engineering/construction services in the areas of pre-engineered buildings, industrial products, industrial automation, energy production and steel fabrication. Products and services are marketed on a world-wide basis.	Head office: Hanover, New Hampshire. Divisions and subsidiaries are located primarily in the United States and Canada.
1,200	800	Manufactures commercial chinaware mainly in the United States. Markets include commercial and institutional segments of the food service industry.	Head office: Syracuse, New York. Plants are located in Syracuse, Pennsylvania and Quebec.
300	400	Mines and processes wollastonite and tripoli, and chemically modifies wollastonite and other particulates for industrial applications.	Head office: Syracuse, New York. Wollastonite and chemical modification facilities located in New York State; tripoli facilities located in Missouri and Oklahoma.

Review of Operations

Laidlaw front end loader at customer's plant in Hamilton.

Freight trains pass at west portal of Mount Macdonald tunnel in British Columbia.

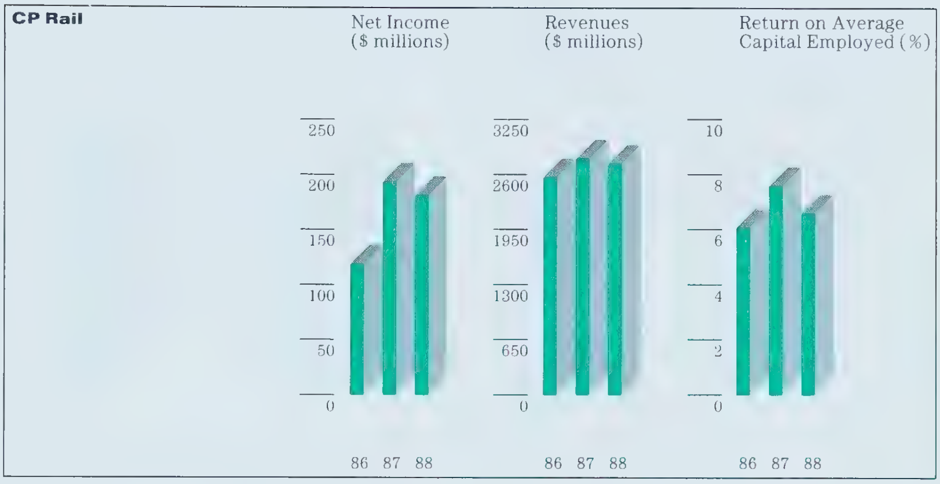
Container being loaded aboard ship at Racine Terminal in Montreal.

CP America tractor-trailer unit ha
freight in Milwaukee, Wisconsin.

Transportation and Waste Services

Following growth in 1987, total revenues from this segment decreased 3% to $4,311.7 million in 1988, reflecting a reduction in CP Rail freight volume and the absence of Soo Line's Lake States division, which was sold in 1987; the sale of this division produced a similar reduction in expenses.

Net income increased from $92.7 million in 1986 to $227.4 million in 1987 and $246.8 million in 1988. The sharp rise in 1987 was attributable to CP Rail, Soo Line Corporation and CP Ships, while the largest improvement in 1988 came from Soo Line.



CP Rail

CP Rail's net income amounted to $181.2 million in 1988, compared with $193.6 million in 1987 and $118.8 million in 1986. The reduction in 1988 was attributable mainly to a decline in traffic from the record levels of 1987. Operating expenses were also higher, due mainly to continued escalation of labour rates. The increased income in 1987 compared with 1986 was due not only to higher traffic, but also to improved operating efficiencies.

Following an increase of 16% in 1987, CP Rail's traffic volumes declined 3% in 1988. In 1987, grain traffic volumes were at an all-time high because of a very successful crop and efforts by the Canadian Wheat Board to increase exports. In 1988, drought on the Prairies contributed to a grain traffic decrease in the latter part of the year. Lumber traffic was also lower in 1988, reflecting the decline in housing starts in North America and a surge in 1987 in lumber traffic following the end of a lengthy strike in the forest industry.

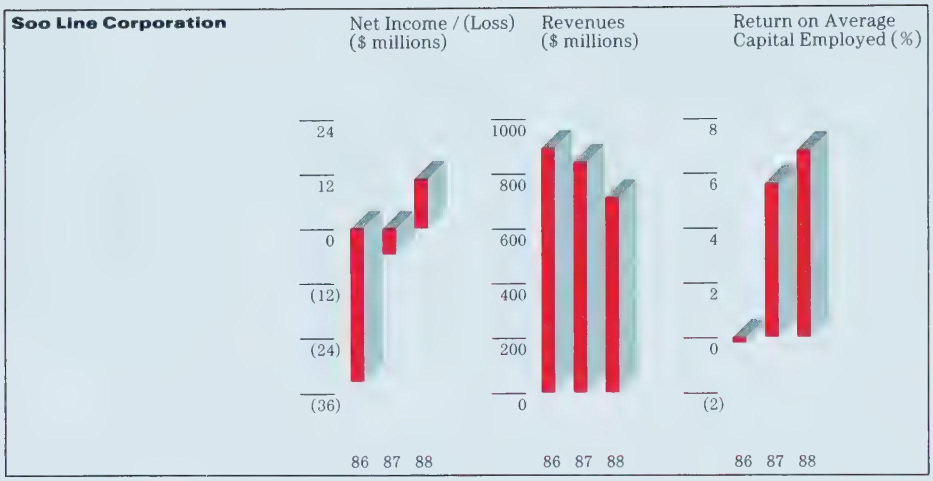
1988 was, however, another year of record coal traffic, due to continued strong demand by Japanese steel mills and Ontario Hydro. Other traffic increases were experienced in chemicals and acids, automotive products, and lead and zinc.

CP Rail's operations were disrupted for four months in 1988 by rotating strikes by shopcraft employees. The strikes ended with the signing of a new contract which, along with other labour agreements, covered the two-year period ended December 31, 1988. Negotiations in respect of new contracts started in late 1988. A settlement, which is subject to ratification, was reached with the largest of the four separate negotiating groups representing 41% of the total unionized workforce. The settlement provides for annual wage increases of 4.5%, 4% and 4.5% over the three-year period commencing January 1, 1989. It also provides for improvement to benefits and partial pension indexation. Negotiations with the remaining bargaining groups are continuing.

1988 was the first year under the new regulatory environment created by the National Transportation Act, 1987. The Act, which allows confidential contracts between railways and shippers, has had a dampening effect on revenue growth. However, it has also provided new opportunities for a more direct relationship with shippers and for a better matching of transportation services to individual customers' needs.

CP Rail's capital expenditures increased to $386 million in 1988, or 22% over 1987, with the major items being the Rogers Pass project in the ~~Canadian Rockies~~ SELKIRKS and the acquisition of new locomotives. In December the Rogers Pass project begun in 1984 was completed. The project, which increases main line capacity and allows for more efficient operations, involved the construction of two tunnels of nine miles and one mile, and approximately eleven miles of new surface route.

Safety is one of CP Rail's top priorities. This is recognized in its accident record, which in 1987 was the best of all the major railways in North America for the fifth consecutive year. CP Rail remains committed to maintaining this record.



Soo Line Corporation

Soo Line returned to profitability in 1988 and CP Limited's 55.8% share amounted to $10.8 million, compared with net losses of $5.7 million in 1987 and $33.5 million in 1986. Significant non-recurring items that are reflected in Soo Line's results included a restructuring charge in 1986 amounting to $32.7 million after tax at CP Limited's level and a charge in 1987 attributable to the sale of Soo Line's Lake States division, of which CP Limited's share amounted to $9.6 million after tax.

At the operating level Soo Line's results showed improvement during the last three years. In 1988 improved freight rates and greater cost efficiencies were the chief positive factors. In comparing 1987 with 1986, an increase in business levels and lower operating costs, particularly of labour, outweighed an unfavourable traffic mix and the effects of competitive rate pressure.

In 1988 a joint labour-management committee was formed to determine the feasibility of establishing an Employee Stock Ownership Plan in order to acquire Soo Line. After several months of discussions, the joint committee recently announced that it had been unsuccessful in efforts to obtain sufficient financing to acquire 100% of the stock of Soo Line. In the meantime, CP Limited is pursuing other sale opportunities for its shares.

Because of changes in railway regulation, Soo Line and CP Rail are negotiating amendments to their traffic agreement, which has been in place since 1944.

CP Ships

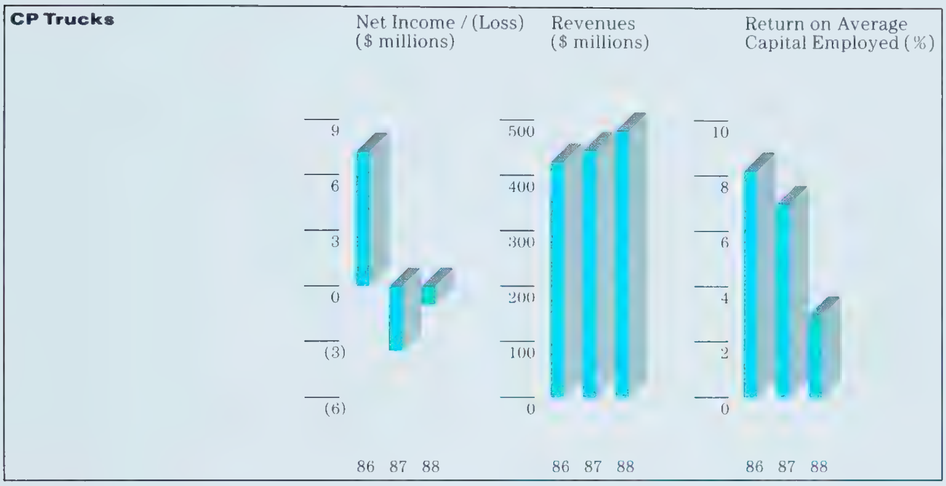
Container Operations

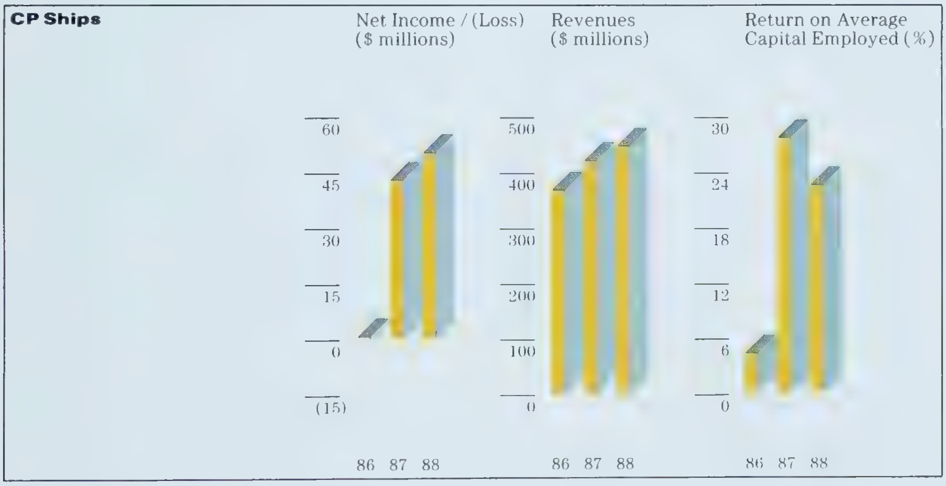
Net income from Container Operations amounted to $16.9 million in 1988, $13.1 million in 1987 and $8.0 million in 1986. In 1988 Canada Maritime Limited showed improvement, after two years of earnings decline. Over the past three years income from charter and miscellaneous activities increased and interest charges were reduced following debt repayment.

In 1988 Canada Maritime's North Atlantic and Mediterranean services experienced steady strengthening in eastbound trade, with the result that rates and volume were higher than in 1987. On the other hand, a slight deterioration occurred in westbound rates and carryings, reflecting strong competition. In comparing 1987 with 1986, eastbound volumes on the North Atlantic surged but westbound carryings remained unchanged and competitive pressures led to depressed rates. Volume growth on the Mediterranean service was significant in 1987, the first full year that service was in operation.

Bulk Shipping Operations

The past year witnessed a major reduction in the size of the bulkshipping fleet and a change in the direction of CP (Bermuda) from a general bulkship owner to a specialized niche operator. Nineteen ships were sold and the owned fleet now comprises eight ships, of which six tankers are used in the chemical and vegetable oil trades on a semi-liner basis. There has also been a significant increase in the use of chartered-in tonnage to support the growing chemical/vegetable oil tanker trades. CP (Bermuda)





recently entered into a joint venture to operate time-chartered tonnage to expand its penetration in the vegetable oil markets, particularly from the Far East to the U.S., South America and Europe. Other joint ventures are being pursued to provide a more substantial base from which to develop the company's chemical and vegetable oil trades.

After recording a loss of $7.9 million in 1986, Bulk Shipping Operations posted profits of $29.9 million in 1987 and $33.5 million in 1988. This achievement reflects gradual improvement in shipping markets, lower expenses, and gains of $17.8 million on selling two vessels in 1987 and $11.2 million on the sale of one vessel in 1988. Gains on the sale in 1988 of eighteen other ships, representing most of the fleet, amounted to $102.6 million and are reflected in CP Limited's extraordinary items in 1988.

CP Trucks

Operating in an environment of continued competitive pressures, CP Trucks incurred net losses of $1.0 million in 1988 and $3.5 million in 1987, which compare with a profit of $7.3 million in 1986. Included in the loss for 1987 was a write-off of $12.0 million after tax representing the diminution in the value of operating licences and goodwill resulting from deregulation of the industry, partially offset by a gain of $5.0 million after tax from the sale of an air courier service.

Operating results in 1988 of both the General and Specialized Commodities divisions deteriorated, while CanPac International Freight Services showed improvement.

For the General Commodities division 1988 was another year of softer rates, reflecting industry deregulation effective January 1, 1988. In addition, expenses in 1988 included reorganization charges as the division responded to heightened competition.

Revenues of the Specialized Commodities division continued to grow in 1988. However, operating income fell reflecting mainly the impact of heavy competitive pressures and start-up costs of new services on CANPAR, the parcel delivery service. Among the other operations, Highland Transport, the truckload division, recorded new highs in revenues and operating income in 1988. Bulk Systems' results, however, were

worse and CP Moving Systems continued to encounter rate discounting and severe competition. CP Moving Systems was sold early in 1989.

In pursuing its thrust into the United States, CP Trucks established in March 1988 its CP America division, a truckload business based in Milwaukee, Wisconsin, and recently expanded the truckload operations with the acquisition of a company located in New England. Further small truckload acquisitions in the U.S. are planned in 1989.

Laidlaw Transportation Limited

In July 1988 CP Limited purchased 47.2% of Laidlaw Transportation Limited's Class "A" voting shares for $499.3 million. Laidlaw is the largest school bus operator and the third largest waste service company in North America. For the July to December period of 1988 CP Limited's income from Laidlaw, representing an equity interest of 11.8%, amounted to $5.4 million, after amortization of goodwill.

Laidlaw's history has been characterized mainly by rapid growth through acquisitions. During the past three years alone, Laidlaw's assets grew from U.S. $650 million in 1986 to U.S. $1.6 billion in 1988, revenues increased from just over U.S. $500 million to U.S. $1.2 billion, and net income before extraordinary items rose from U.S. $48 million to U.S. $147 million. Operating profit margins also improved – from 14.8% in 1986 to 17.3% in 1988. During this period the company acquired thirty-eight passenger service businesses and thirty-one waste service businesses. Laidlaw's focus has also shifted more to activities in the United States. In the last three years the portion of revenues generated by operations in that country increased from 58% to 73%.

Early in 1989 Laidlaw acquired a 28.8% fully diluted interest in Attwoods plc of the United Kingdom for U.S. $123.5 million. Attwoods is a rapidly growing waste service company with 70% of its 1988 revenues generated from waste service operations in the United States and the balance coming primarily from waste collection, landfill sites and transfer stations in the U.K.

Outlook

CP Rail's earnings will continue to be significantly affected by last summer's prairie drought, with grain traffic reduced in the first half of 1989. Increased volumes are forecast from potash, fertilizers, automotive, intermodal and international container traffic. Inflationary cost pressures, higher maintenance outlays and rail upgrading will lead to an increase in expenses. With the completion of the Rogers Pass project in 1988, capital spending will decline significantly in 1989.

Soo Line revenues are expected to decline due to lower volumes, especially from commodities adversely impacted by the drought, and fewer land sales. Results however should benefit from freight rate increases and reduced expenses. Labour contract negotiations are currently on hold.

The main Montreal container lines are experiencing significantly better capacity utilization than most container lines serving U.S. east coast ports, and no significant new entrants into Montreal are expected. However, stiff competition on the North Atlantic is anticipated and rates and volumes through the Montreal gateway will continue to reflect overall North Atlantic pressures. Rates in the specialized niche trades in which CP (Bermuda) now operates exclusively are expected to be better than in 1988.

Market conditions for CP Trucks will remain difficult in 1989. The combination of deregulation and free trade will encourage greater competition, exerting pressure on market share and rates. Nevertheless, CP Trucks expects improvement in all its divisions in 1989 reflecting quality and service programs, greater efficiency and acquisitions.

Acquisitions will continue to be a driving force behind Laidlaw's growth. The company intends to pursue opportunities in landfill, resource recovery and recycling, chemical waste services and solid waste collection. In passenger services, margins are expected to decline slightly in 1989 due to the high cost of driver recruitment and training. The school bus transportation segment will also continue to expand.

Energy

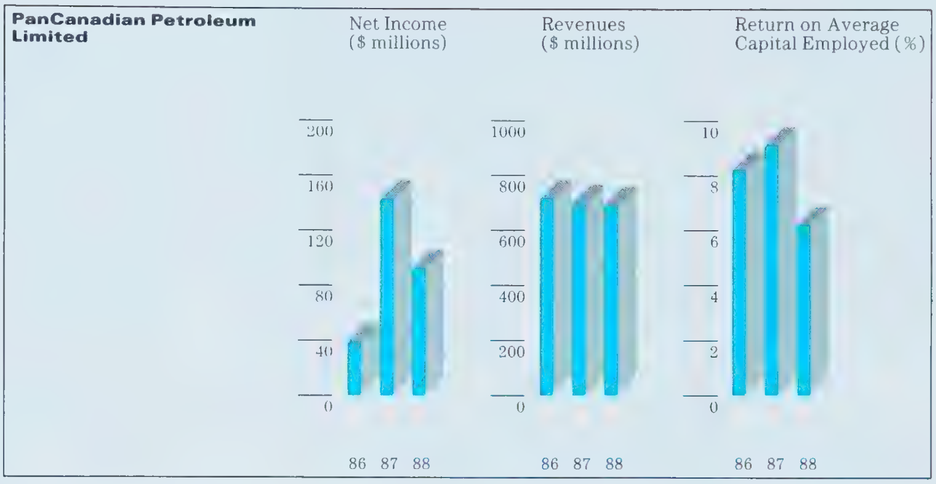
Over the past three years, revenues from the Energy core have been fairly stable, amounting to $1.0 billion in 1988. However, after improving in 1987, operating income fell 29% to $232.7 million in 1988, and net income declined 23% to $122.5 million, due to lower product selling prices experienced by PanCanadian Petroleum.

PanCanadian Petroleum Limited

Continuing to operate in a challenging environment, PanCanadian's earnings declined in 1988 and CP Limited's 87.1% share amounted to $92.0 million. This compares with net earnings of $142.5 million in 1987 and $39.1 million in 1986. Included in 1986 results was an unusual charge of $82.5 million representing CP Limited's share of PanCanadian's ceiling test write-down of non-Canadian petroleum and natural gas properties resulting from the reduction in world oil prices that year.

PanCanadian's 1988 performance was affected mainly by lower crude oil and natural gas prices and higher expenses arising from increased production from developing properties and newly acquired interests. An improvement in oil prices in 1987 was the chief reason for PanCanadian's better operating results that year, compared with 1986.

Following a decline from a high of $37 per barrel to a low of $15 per barrel in 1986, domestic oil prices, although volatile, recovered moderately in 1987, closing the year at $20.50 per barrel. In 1988 prices dropped again and ranged between $21 and $15, reflecting persistent over-supply conditions as members of the Organization of Petroleum Exporting Countries (OPEC) continued to produce in excess of their production quotas. In late November 1988, OPEC members negotiated a production ceiling of 18.5 million barrels per day for the first six months of 1989. In response, prices strengthened considerably.



Surplus supplies of natural gas in North American markets, which have prevailed for most of the 1980's, continued in 1988, although there have been signs of improvement recently. As a result, the weighted average price of gas per thousand cubic feet received by PanCanadian declined to $1.44 in 1988 from $1.57 in 1987 and $2.12 in 1986.

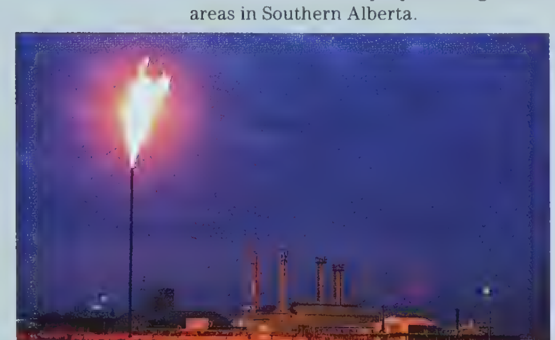
Production of PanCanadian's oil and gas reached record levels in 1988. Conventional and synthetic crude oil production increased 15% and 87%, respectively, over 1987, reflecting the results of successful exploration and development programs, together with the acquisition of producing properties. Natural gas sales rose 19%, due to increased demand in domestic markets of 10% and a 30% increase in exports to the United States. At year-end 1988, PanCanadian's aggregate proven and probable reserves, before deduction of royalties, of conventional and synthetic crude oil, natural gas and natural gas liquids were 980.6 million barrels of oil equivalent, a new record.

With its sound financial position, PanCanadian continued its active program exploring for and developing oil and gas reserves primarily in Western Canada. Capital expenditures on these activities amounted to $275.9 million, up 30% over 1987. In addition, PanCanadian spent $450.4 million on the acquisition of properties to strengthen its position as a major producer in Canada. The company purchased an additional 23% interest in the Weyburn oil field in Saskatchewan, increasing its working interest to 44%, and acquired additional interests of 6% in Syncrude and 5% in OSLO, raising its share of these Alberta oil sands projects to 10%. The OSLO project proposes the construction, beginning in 1991, of an integrated oil sands plant with a capacity of approximately 77,000 barrels per day of synthetic crude oil.

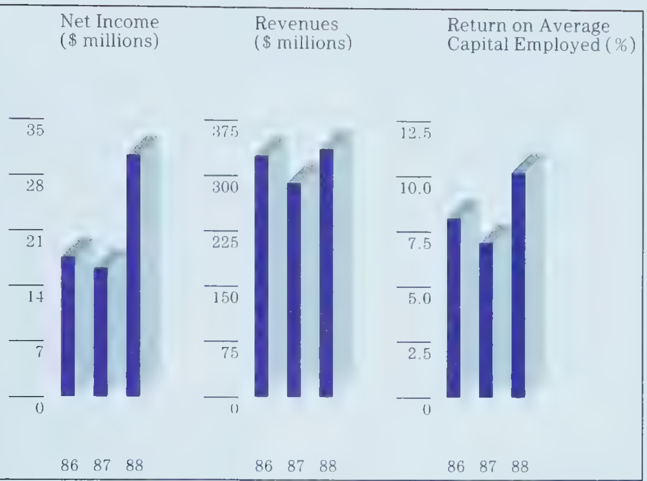
Heavy equipment loads and hauls coal at Fording's new Genesee mine southwest of Edmonton.

Drilling for deep sour gas at Limestone Mountain in Alberta foothills.

Oil and gas operations at Brooks, one of PanCanadian's major producing areas in Southern Alberta.



Fording Coal Limited



Fording Coal Limited

Fording's performance improved significantly in 1988, with net income amounting to $30.5 million, up almost 90% and 75% from 1987 and 1986, respectively.

A surge in steel production in Europe and the Pacific Rim together with the effects of labour disruptions in the Australian coal industry directed more orders towards North America. As a result Fording's shipments rose to a record 5.7 million tonnes in 1988 from 5.1 million tonnes in each of 1987 and 1986. Fording's traditional market, the Japanese steel mill consortium, now accounts for only 35% of total sales volume, reflecting efforts over the past few years to acquire new customers.

Fording's improved results in 1988 also reflected the benefits of foreign exchange hedging and better coal selling prices, which on average in U.S. dollar terms were up 3%, following a decline of 10% in 1987 from 1986.

Fording also continues to make progress in containing operating costs and improving productivity. Plant productivity, as measured by tonnes produced per manshift, increased significantly in 1988 and the clean coal yield also improved.

Fording's capital projects are proceeding on target. The first phase of the Genesee joint venture with the City of Edmonton will be completed with the start-up of commercial operations in October 1989. Initial deliveries from the jointly-owned coal mine to a City-owned power plant have already begun. A second unit of the power plant is tentatively scheduled for October 1991. The development of coal reserves at Eagle Mountain, British Columbia, will be completed in 1989. Fording is also a participant in a joint venture to develop coal reserves on land adjacent to the minesite at its Fording River operations, and is involved in another possible project to supply electricity from a power plant that would be constructed at its Fording River operations.

Outlook

Oil prices may continue to fluctuate in 1989 depending primarily on whether OPEC adheres to its quota. However, PanCanadian's conventional and synthetic crude oil production is expected to continue to rise significantly in 1989 due to successful exploration and development programs and the 1988 acquisitions. The price for natural gas appears to have bottomed out as the surplus supply conditions in the United States have dissipated somewhat; the outlook is for slight growth in domestic markets with the potential for further gains in exports. The focus of PanCanadian's exploration and development programs will continue to be on high quality oil and natural gas prospects in Western Canada.

Fording Coal's outlook remains favourable following contract settlement with the Japanese consortium for the 1989-90 coal year. The contract price will increase by U.S. $3.50 per tonne and the new agreement includes some unplanned volumes although a repetition of 1988's exceptional demand for metallurgical coal is not anticipated.

Woodchips destined for use in pulp manufacturing are stockpiled at Thunder Bay plant.

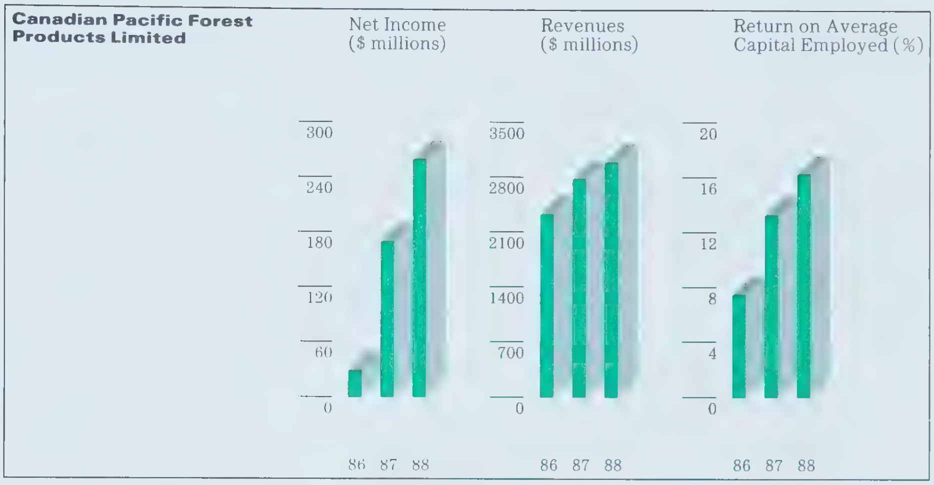
Stacks of bleached kraft pulp are checked for quality at Thunder Bay, Ontario, mill.

Woodlands operations near La Tuque, Quebec.

Newsprint production at mill in Gatineau, Quebec.

Forest Products

The past three-year period was one of significant growth for the Forest Products segment. Total segment revenues increased an average of 13% per year, reaching $3.0 billion in 1988, operating income improved 59% per year to $578.2 million in 1988, and net income rose from $29.2 million in 1986 to $259.6 million in 1988.



Canadian Pacific Forest Products Limited

Canadian Pacific Forest Products Limited was created effective June 2, 1988, by the merger of Great Lakes Forest Products Limited, a 54.3%-owned subsidiary of Canadian Pacific, and CIP Inc., a wholly-owned subsidiary. For comparative purposes, earnings from Great Lakes Forest Products and CIP were aggregated for periods prior to June 1988.

The merged company, which is 79.7% owned by Canadian Pacific, had net earnings of $323.4 million in 1988, an increase of 51% over 1987.

A progressive strengthening in pulp and paper markets that began in 1986 continued in 1988, resulting in increased shipments and higher selling prices, especially of newsprint and pulp. In addition, CP Forest Products' results benefited from lower interest charges over the period, reflecting a reduction in debt levels, and greater operating efficiencies were achieved. Since more than half of CP Forest Products' sales are in U.S. dollars, however, 1988 results were adversely affected by the higher exchange value of the Canadian dollar in relation to the U.S. dollar.

Following improvement that began in late 1986, demand for newsprint, the company's largest segment, remained healthy until the latter part of the year when markets became increasingly competitive. Offshore markets for standard newsprint showed significant improvement, while growth in North American markets was more moderate, due to weakness in retail advertising volume. There was also an increase in demand for groundwood specialty grades of newsprint. Total newsprint shipments in 1988 were up 2.5% over 1987.

1988 was a record year for the market pulp segment, as demand exceeded supply for most of the year. The company's facilities operated at available capacity with extremely low inventories. The tightness prevailing in the market throughout the year was reflected in price increases which occurred in each quarter.

Significant improvement in demand for white paper products throughout 1988 led to the implementation of price increases in all markets. White paper operations also operated at available capacity during the year.

Demand for packaging products in 1988 was reasonably firm, although markets weakened towards the end of the year. Primary operations ran at near available capacity during the year to supply North American and offshore markets.

Markets for the company's tissue products marketed by Facelle Company Limited improved early in 1988, with higher prices and shipments. However, demand weakened during the summer months before recovering again in the last quarter of the year.

Demand and prices for wood products in North America softened as the year progressed, reflecting a decline in North American housing starts and increased competitive pressures. There was also weakening demand in offshore markets, which include Japan, Australia and Europe. The effect of exchange rates was another unfavourable factor.

The mill and woodlands employees in CP Forest Products' widespread operations are covered by several labour agreements. Current contracts, which were renewed in 1987 and 1988, are in effect until 1990 and 1991.

CP Forest Products has a major modernization and expansion program in full swing, with estimated expenditures at year-end 1988 totalling more than $1 billion. A $350 million modernization of the complex at Thunder Bay, Ontario, is the largest single project. It involves the construction of a thermo-mechanical pulp mill and a 240,000-tonne-per-year high speed newsprint machine, replacing two older machines. The thermo-mechanical facility is scheduled for completion by the end of 1989, while the newsprint machine is expected to be operational in 1991 increasing total newsprint capacity in Thunder Bay by 60,000 tonnes to 477,000 tonnes.

CP Forest Products is also a partner in joint ventures involving the construction of two newsprint mills, which are scheduled to come on stream in the fall of 1989. One of the mills, with an annual capacity of 230,000 tonnes, is at the company's Gold River operations on Vancouver Island. The company owns a majority interest and is responsible for the mill's operations and sales. The other partners will purchase more than 80% of the annual production. The estimated cost of the project is $320 million. The other mill, which will have an annual capacity of 210,000 tonnes, is located at Usk, Washington. CP Forest Products has a 40% participation in this U.S. $300 million project, and has responsibility for operations and sales, while several newspaper investor groups will purchase approximately 60% of the annual output.

A major expansion is also under way at the company's Dryden, Ontario, facilities, with completion scheduled for 1989. The program involves construction of a second white paper machine with an annual capacity of 175,000 tonnes to cost $175 million.

Also included are several smaller projects that will cost some $400 million in total.

Outlook

CP Forest Products forecasts another good year in 1989. The economic expansion is expected to continue, led by business capital spending. North American demand for newsprint should remain relatively stable while offshore markets grow. Start-up of the two West Coast mills will position the company as the only coast-to-coast producer of standard newsprint and provide the advantage of mills in both Canada and the United States. Continuing strong demand for market kraft pulp is expected and the company forecasts another excellent year for this business. Strong but less robust demand for white paper should continue, and competition will intensify as additional industry capacity is brought on line. A stable market is anticipated in paperboard and packaging materials, with Canada-U.S. free trade offering increased competition. Although operating in a mature market, sales of tissue should benefit from improved and wider distribution. A soft lumber market is expected due to several factors including declining North American housing starts.

Real Estate and Hotels

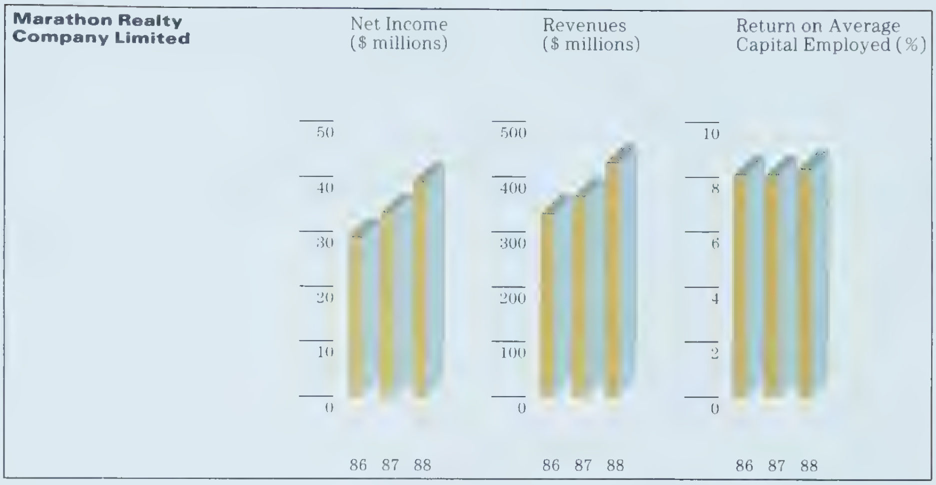
Following modest improvement in 1987, total revenues from this segment rose 28% in 1988 to $845.8 million, while operating profit of $284.9 million was up 49%, and net income of $102.3 million doubled. These results include gains on the sale of CP Rail land not required for railway operations, which amounted to $55.6 million, or $42.3 million after tax, in 1988 and $2.7 million, or $2.3 million after tax, in 1987; they were virtually nil in 1986.

These sales are the result of an ongoing effort to realize value from the Company's real estate holdings in a planned manner.

In addition to the portfolio of income properties, development sites and undeveloped land held by Marathon Realty, certain other operations, particularly CP Rail, have real estate holdings which are, or have the potential to be, surplus to operating requirements.

The Company is conducting a comprehensive review to ensure that all such properties are identified and either developed or sold as non-strategic holdings. Based on approximate internal valuations, taking into account local market conditions and the development potential of some of these assets, the aggregate value of the Marathon Realty portfolio and the other real estate assets approaches $4 billion. The long term debt attributable to these assets amounts to approximately $1.3 billion. The valuations do not include any of the assets of CP Hotels.

Realization of the full economic potential of these real estate holdings remains an ongoing priority for the Company.



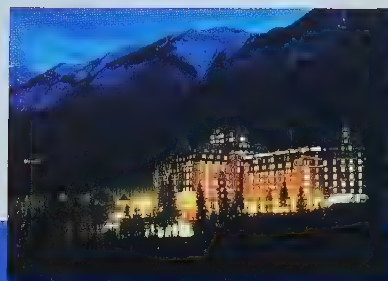
Marathon Realty Company Limited

Marathon Realty continues to record good rates of growth. Over the past three years revenues were up an average of 13% per year, reaching $426.0 million in 1988, operating profit rose by 12% per year to $174.0 million in 1988, and net income increased 16% per year to $39.0 million in 1988. Cash flow from operations increased 11% per year to $84.0 million in 1988.

In 1988 Marathon's improvement reflected increased income from commercial and agricultural land sales, together with a higher contribution from buildings and shopping centres in Canada generated by improved occupancy and rental rates. Income from U.S. shopping centres declined, due to the sluggish economy in the southern states. Marathon's better results in 1987 compared with 1986 arose mainly from a full year's contribution from properties that were acquired or became operational in 1986, increased rental income from several other properties and a gain on the retirement of mortgages receivable. Over the 1986-1988 period interest charges rose steadily because of increased debt levels to finance the expanded portfolio of properties.

In the Buildings Group Marathon owns and operates 35 buildings in Canada and the U.S. with 10.9 million square feet of office space as well as 3.1 million square feet of industrial and aviation-related properties. Leasing results overall were positive in 1988 and generally reflected the market conditions in the various cities where Marathon operates. By the end of 1988 Marathon's two newest office buildings – Marathon Plaza in San Francisco and Atria North, Phase II, in North York, Ontario – were substantially leased.

During 1988 Marathon announced plans for the construction of buildings in strategic locations in Montreal and Vancouver. In downtown Montreal, Marathon will build, in a joint venture with IBM Canada Ltd., a 45-storey,

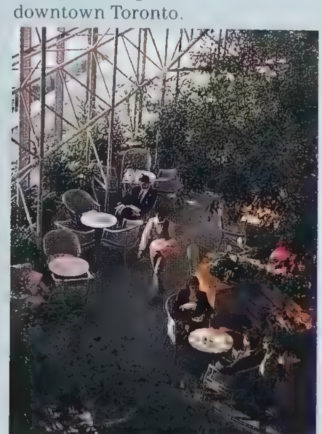


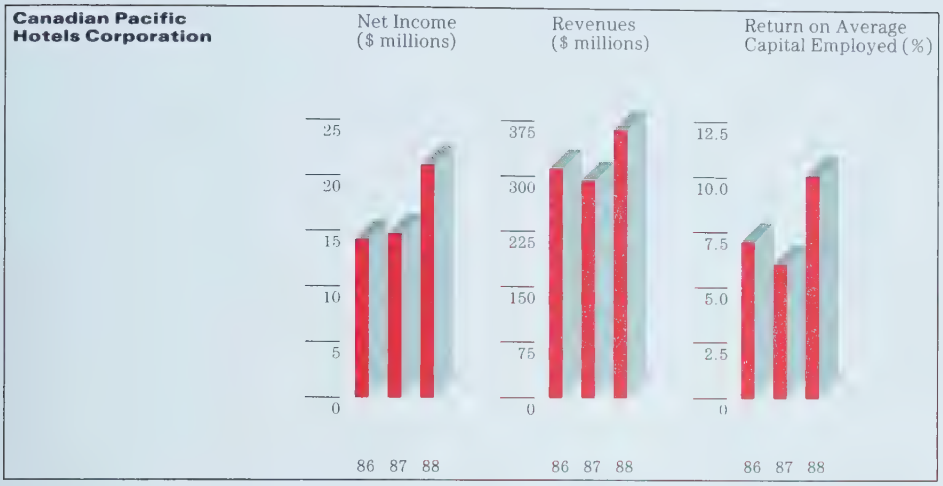
Banff Springs Hotel lights up during centennial year in 1988.

Marathon Plaza office building in San Francisco opened in 1988.

Place Laurier in Ste. Foy, Quebec.is Marathon's largest shopping centre.

Skylight Lounge at L'Hotel in downtown Toronto.





1.0 million-square-foot office building to be completed in 1991. Site work also commenced on Waterfront Centre in Vancouver, a combined 755,000-square-foot office, hotel and retail project slated for completion in 1991. In Toronto, construction is scheduled to start in 1989 on the 760,000-square-foot Metro Hall and adjacent office building project.

Marathon's Shopping Centre Group holds varying interests in 19 shopping centres covering 7.0 million square feet in Canada and 11 centres with 6.1 million square feet in the United States. The Canadian shopping centres benefited from increased rentals in 1988 as a result of strong retail sales and the strength of the Canadian economy, particularly in Ontario. The U.S. shopping centres, which are located in the southern states, continued to be affected by the weak economy in the region, but there was a full year's contribution from the acquisition in June 1987 of major interests in six shopping centres.

During the past year Marathon focused on upgrading and expanding existing shopping centres in Canada and continued its development program in the United States. The redevelopment of a shopping centre in Calgary was completed and progress was made on the expansion of a centre in Ottawa. In the U.S. a remodeled shopping mall in Arkansas opened during the year and progress was made on two new developments in Texas and Oklahoma which will open in 1989. Marathon will also soon begin modernization programs at shopping centres in Quebec City, Kelowna, B.C., and Toronto, and is actively considering other development opportunities in Texas, Tennessee and Arkansas.

In 1988 Marathon's Land Group accelerated its program to divest non-strategic commercial and agricultural properties in Canada, and continued to pursue business park activities. Emphasis was on planning for two large-scale development projects – the Southtown project in Toronto and the Coal Harbour project in Vancouver. Marathon also has two other development projects under consideration in Toronto and Montreal.

Canadian Pacific Hotels Corporation

Canadian Pacific Hotels had a successful 1988 with net income rising to $21.0 million from $14.8 million in 1987 and $14.3 million in 1986. The increase in 1988 was achieved despite the inclusion of a loss of $5.8 million on disposal of the hotel at Mirabel International Airport near Montreal; in 1986 there was a gain of $2.5 million on the disposal of properties.

After declining by some 21% in 1987, operating income in 1988 almost doubled to $55.3 million. The 1988 improvement came chiefly from significantly greater occupancy, higher prices and the acquisition of the nine-property CN Hotels effective April 1, 1988. In addition, in 1987 there was a sizeable loss from hotel operations in West Germany; in 1988 results of these leased operations were applied against the provision made late in 1987 for a loss on their future disposal. Domestic operations in 1987 showed improvement over 1986, due to higher room rates, which offset a slight decline in occupancy levels from the prior year when Vancouver's Expo 86 generated additional business.

The two mountain resort hotels at Banff Springs and Lake Louise

recorded substantially higher operating profits in 1988 over 1987 partly due to the expanded room base and partly because of the additional business generated from the 1988 Winter Olympics in Calgary. The Palliser Hotel in Calgary also benefited from the Olympics as host hotel for the Olympics Committee Organization. Other hotels in Canada maintained their 1987 performance.

As for the hotels in Germany, agreement was reached for the disposition of the lease on the Hamburg Plaza on January 1, 1989, while negotiations continue in respect of the leases on the hotels in Frankfurt and Bremen.

In its commitment to provide high-quality accommodations and services, CP Hotels is making further progress with its renovation and upgrading program. During 1988 CP Hotels spent almost $70 million on this program which included renovating and upgrading almost 1,000 guest rooms. Most of the spending was on the Banff Springs Hotel and Chateau Lake Louise in Alberta, Le Chateau Frontenac in Quebec City, the Royal York in Toronto and the Empress Hotel in Victoria, B.C. The Empress closed in October 1988 for six months to undergo a complete renovation.

New properties expected to open in 1989 are a resort hotel being built in Whistler, B.C., and Toronto's Sky-Dome Hotel on which CP Hotels holds a management contract. It was also announced in 1988 that CP Hotels will manage the hotel being included in Marathon's Waterfront Centre development in Vancouver. These projects will add a total of approximately 1,200 rooms to CP Hotels' base.

Outlook

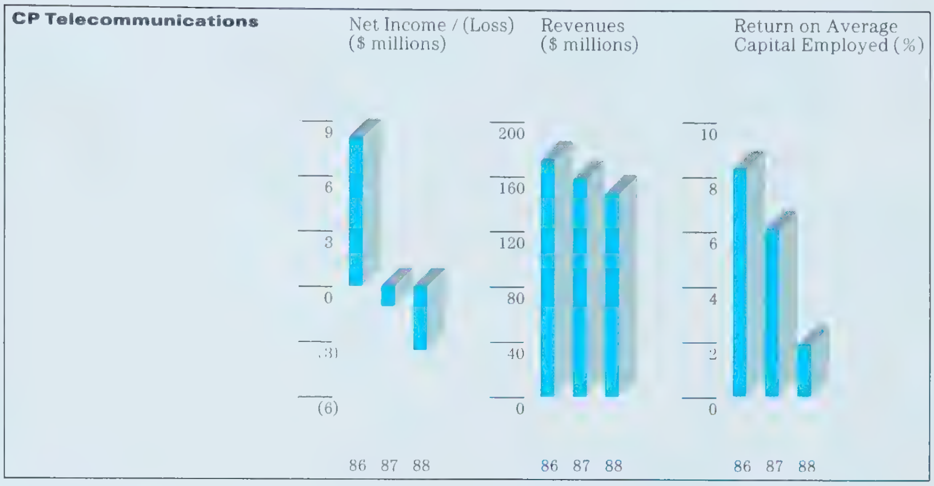
Marathon's operations in 1989 should benefit from continued economic expansion in Canada and the Canada-United States Free Trade Agreement. Also, the situation in the southern United States is showing signs of improvement. Although the North American commercial real estate industry is approaching maturity, Marathon is in a unique position to operate successfully in this environment. By accelerating the disposition of non-strategic assets, maximizing the potential of its most dominant and successful properties and developing new projects in specific growth areas, Marathon will continue to be an industry leader.

CP Hotels will continue to position itself for growth with its ongoing renovation and upgrading program. Revenues in 1989 will benefit from continuing strong markets in Central Canada and Vancouver, the inclusion for the whole year of the former CN Hotels chain and the opening of two new hotels. Management will focus on capturing the synergistic potential of the expanded network and on human resource planning and product differentiation marketing. Also, the retail revenue potential of CP Hotels' properties will be more fully exploited.

Telecommunications and Manufacturing

After falling from $2.9 billion in 1986 to $2.0 billion in 1987, revenues from the Telecommunications and Manufacturing segment increased to $2.3 billion in 1988. The reduction in 1987 reflected largely the effect of businesses divested by AMCA International under its restructuring program, while the increase in 1988 arose chiefly from AMCA's better performance that year.

This segment posted earnings of $19.5 million in 1988 and $14.6 million in 1987, following a net loss of $5.2 million in 1986. The gradual upturn was attributable mainly to improvement at AMCA in 1988, and the fact that its 1986 results included a significant charge representing a reduction in tax benefits flowing from tax reform legislation in the United States.



CP Telecommunications

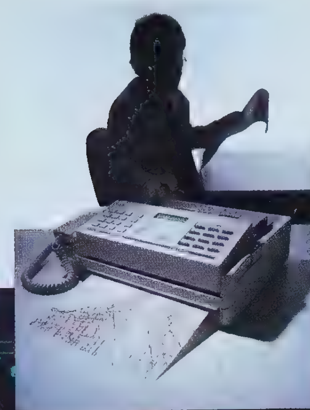
Effective December 15, 1988, Canadian Pacific purchased Canadian National's 50% interest in the CNCP Telecommunications partnership, together with CN's 50% interest in Telecommunications Terminal Systems, a small interconnect company which was also a partnership with Canadian Pacific.

CNCP has been undergoing a major transformation prompted by rapidly changing technology and growing demand for new services. A steady decline in CNCP's traditional services, especially Telex, has contributed to a worsening financial performance over the past three years – from net earnings to CP Telecommunications of $8.1 million in 1986 to net losses of $1.1 million in 1987 and $3.5 million in 1988. An operational review by the partnership in 1987 led to a write-down of certain assets and an employee reduction charge, of which CP Telecommunications' portion was $6.1 million after tax. Excluding this item, earnings in 1987 amounted to $5.0 million. In 1988 an accelerated drop in Telex business and the transition from analogue to digital technology resulted in another more considerable write-down of assets during the third quarter. CP Limited's share of this write-down, together with an employee reduction charge, is reflected in its 1988 extraordinary items detailed in the Financial Review section and Note 6 to the financial statements of this Annual Report.

Although revenues from Telex continue to fall, new services in voice and data, such as *Mach III*, and new messaging services launched over the last few years have helped to offset the Telex decline. In May 1988, regulatory approval was received to provide a long distance facsimile transmission service. As a result two new messaging services, *Facsroute* and *Facsroute Plus*, designed to meet the demand of the business community, were launched using the Broadband and Packet switched networks. Another new service known as *Transdollar* was introduced in conjunction with Western Union to provide for the transfer of money electronically throughout Canada and the United States. Late in 1988 a new company, Telesat Mobile Inc. (TMI), was formed to construct and operate the first truly mobile voice and data communications system in Canada using satellites. Canadian Pacific will contribute $30 million and own 30% of TMI.

In late 1988, CP Telecommunications completed its digital fibre and

CNCP Telecommunications introduced facsimile transmission service in 1988.



Telecommunications Network Management Control Centre in Toronto.

Varco-Pruden plant in Evansville, Wisconsin, designs and manufactures pre-engineered steel buildings.

Cherry-Burrell aseptic fluid system processes liquid dairy products and fruit juices.

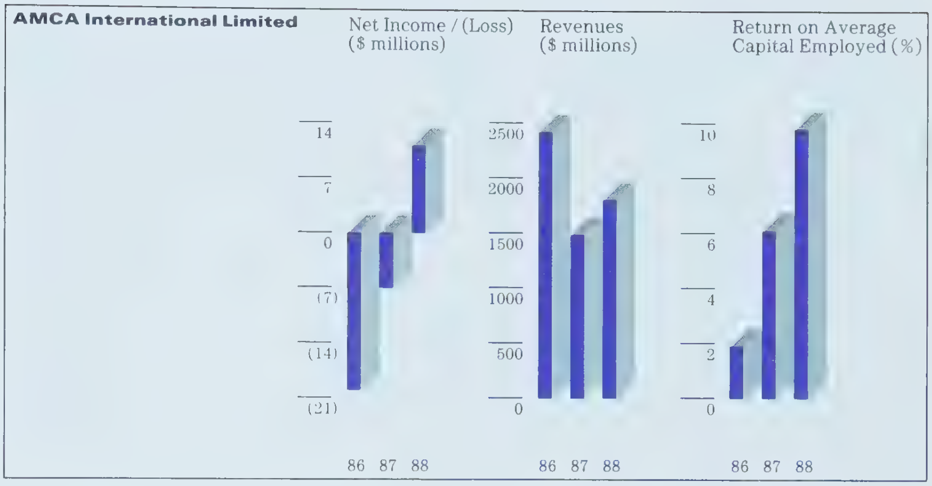
microwave network between Montreal and Vancouver and all major intermediate cities. Also, digital gateways to the United States at Montreal, Windsor and Vancouver were completed in 1988. In 1989 a new cross-border gateway at Toronto will be added.

CNCP intends to submit another application to the Canadian Radio-television and Telecommunications Commission (CRTC) for permission to offer public long distance telephone service. Late in 1986 the CRTC rejected CNCP's application to review its earlier decision disallowing entry into the public long distance voice market. Since that time CP Telecommunications has made significant improvements in order to enhance its capability to offer such services.

AMCA International Limited

The past year marked the beginning of a new direction for AMCA International. Earnings applicable to common shareholders were generated for the first time since 1982 and its major restructuring program begun in 1986 was substantially completed.

CP Limited's share of AMCA's earnings amounted to $11.1 million in 1988, compared with net losses of $7.0 million in 1987 and $20.0 million in 1986. These results include dividend income from CP Limited's holding of AMCA's preferred shares, which amounted to $9.9 million per year.



AMCA's stronger performance in 1988 reflected improved business activity, together with the retention and reconsolidation of the BOMAG compaction equipment operation in West Germany effective April 1, 1988. After a period of depressed sales and low margins, all segments, except Steel Products and Services, showed improvement in 1988. The Buildings segment experienced record volumes in 1988 arising from strong activity in non-residential construction markets. The Energy and Engineering group benefited from higher order activity, tight cost control and aggressive marketing efforts, despite the impact of depressed oil prices. Profitability in the Industrial Automation segment increased reflecting improved order activity in machine tools that began in the latter part of 1987 and continued throughout 1988. The reconsolidation of BOMAG, improved activity and the acquisition of Waukesha Pumps at the end of 1987 contributed to better earnings from Industrial Products. Income from the Steel Products and Services segment was less than in 1987, when there was a gain on settling a contract in Indonesia.

AMCA's restructuring activities, which involved the sale, consolidation or closure of several non-core businesses, continued in 1988 with the sale of its Manitoba Rolling Mills division, along with other smaller operations. The cash generated from the restructuring program was used to strengthen the remaining core businesses and improve the balance sheet through debt reduction. AMCA also increased its equity by issuing additional common shares through rights offerings in May and December 1988, raising $325.3 million. Canadian Pacific participated in the two issues, and raised its holding of AMCA's common shares from 50.6% to 55.4%.

Syracuse China Corporation

Syracuse China's operating margins and profits declined over the past few years. In 1988 shipments of chinaware rose significantly reflecting a major acquisition, but average selling prices fell because of an unfavourable product mix, and costs were higher. In comparing 1987 with 1986, lower sales volume and a less favourable product mix offset the benefits of productivity improvement.

Early in 1988 Syracuse China acquired Shenango China, thereby providing the company with an expanded product range. Marketing is now concentrated on brand differentiation – Syracuse China for moderate styles of chinaware, Shenango for economy products, and Mayer for the upscale market.

Processed Minerals Incorporated

Processed Minerals posted improved results in 1988, due largely to a gain on sale of its subsidiary, Carey Salt, Inc. The company's operating income was slightly lower, however, since an increase in wollastonite sales was outweighed by higher costs and the lower contribution from Carey Salt due to its sale. As for 1987 compared with 1986, results improved primarily because of higher wollastonite sales in both domestic and export markets, together with the acquisition late in 1986 of a company engaged in the production of tripoli.

Outlook

CP Telecommunications' revenues from services launched in the last few years have grown sufficiently to offset declining revenues from Telex. Future revenue growth, accelerated by entry into other new services, along with a reorganization and productivity improvements, should return CP Telecommunications to profitability. Additional investments in new technology and training will provide the foundation for longer term entry into markets such as long distance public voice and satellite communications.

AMCA's prospects have substantially improved due to stronger markets, improving margins, and reduction in fixed charges. Year-end backlog is up over 40% from 1987 and is the largest in several years. High factory capacity utilization in the United States, strong demand for capital goods in general manufacturing and food processing, and favourable construction markets bode well for AMCA's operations. AMCA plans to continue focusing into fewer and larger businesses, with emphasis for growth in the buildings sector, including general construction, and food processing and packaging operations.

Syracuse China is facing a mature market in which industry rationalization is inevitable but the company intends to gain market share with its complete line of products, superior service and focus on high volume users.

Processed Minerals will continue to emphasize the uniqueness of its products, develop new value-added products, and pursue a mica source.

Financial Review

Executive vice-presidents R.K. Gamey, I.B. Scott, J.F. Hankinson, G.F. Michals.

Consolidated Highlights

Consolidated net income before extraordinary items rose to $774.5 million in 1988 from $636.7 million in 1987 and $150.1 million in 1986.

On a per Ordinary share basis, earnings were $2.50 in 1988, compared with $2.12 in 1987 and $0.50 in 1986. Per share amounts are based on a weighted average number of Ordinary shares of 309.1 million in 1988, 300.5 million in 1987 and 298.3 million in 1986. The increase in 1988 stems largely from the issue of shares to acquire an interest in Laidlaw Transportation Limited.

After extraordinary items, consolidated net earnings were $820.1 million, or $2.65 per Ordinary share, in 1988 and $826.3 million, or $2.75 per share, in 1987, whereas in 1986 there was a net loss of $80.3 million, or $0.27 per share.

Extraordinary income of $45.6 million in 1988 consisted of gains totalling $102.6 million on the sale of 18 bulkships, offset by a loss of $26.4 million on the sale of The Algoma Steel Corporation, Limited and a write-down and restructuring charge of $30.6 million in respect of CP Telecommunications.

In 1987, extraordinary income of $189.6 million included gains on the sale of Canadian Pacific Air Lines, Limited, Maple Leaf Mills Limited and a CP Ships office building, offset by a write-down and restructuring charges in respect of AMCA International and a provision for the future disposal of leased hotel properties in West Germany.

Extraordinary charges in 1986 of $230.4 million reflected the write-down in the value of assets, partially offset by gains on selling Canadian Pacific's interest in Cominco Ltd. and CP Hotels' flight kitchens.

Since 1986, the Company's consolidated revenues declined from $15.1 billion to $12.2 billion in 1987 and to $12.0 billion in 1988, due principally to the divestiture of businesses under the Company's restructuring program.

Operating profit of $1.9 billion in 1988 was basically unchanged from 1987, compared with $1.4 billion in 1986. In 1988 the most significant favourable factors were higher selling prices and increased shipments of forest products, especially newsprint and pulp. The Forest Products segment represented the largest single source of operating income for CP Limited in 1988, contributing 31%. CP Limited's operating profit also benefited from improved business activity in most divisions of AMCA International, gains on the sale of real estate, and improvement in the real estate and hotel businesses. However, results were adversely affected by a downturn in prices of oil and gas and lower CP Rail traffic, especially grain. The increase in CP Limited's operating income in 1987 compared with 1986 arose mainly from higher shipments and prices of forest products, record rail traffic in 1987, and programs to reduce costs and improve operating efficiencies.

The Company's interest expenses over the past three years declined from $737.4 million in 1986 to $452.0 million in 1988, reflecting mainly the impact of businesses sold, especially in 1987, and lower debt levels in the forest products and transportation businesses. Reduced interest expense and higher earnings led to an improvement in the interest coverage ratio to 4.2 times in 1988 from 3.6 times in 1987 and 1.5 times in 1986.

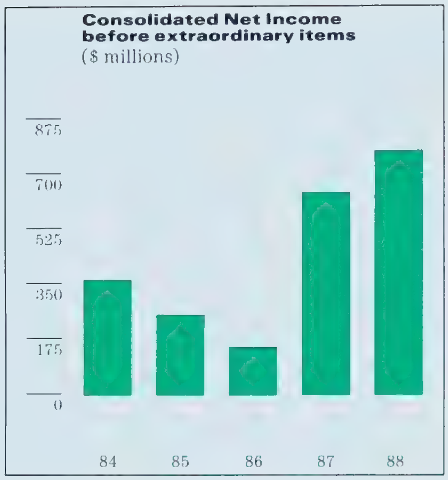
Non-operating income of $38.7 million in 1988, consisting largely of the amortization of foreign exchange gains on long term debt, compares with non-operating expenses of $45.9 million in 1987, when Soo Line incurred a loss of $31.5 million on the sale of a division. In 1986 non-operating expenses of $237.8 million included a restructuring charge of $113.5 million in respect of Soo Line and a charge of $94.8 million representing PanCanadian's ceiling test write-down of reserves in response to the oil price decline in 1986.

Segmented Information

Segmented sales, expenses, operating profit and other income items are found in Note 2 of the financial statements. A discussion of segment performance is provided in the Review of Operations on pages 10 to 28 of this Report.

Asset Management, Liquidity and Capital Resources

CP Limited's rates of return on average capital employed and shareholders' equity continue to show solid improvement. The return on average capital employed increased to 8.8% in 1988 from 8.1% in 1987 and 4.7% in 1986, and the return on average shareholders' equity rose to 11.3% from 10.4% in 1987 and 2.5% in 1986.



Consolidated assets remained at approximately the same level of $18 billion over the past three years. However, the composition of the assets was affected by the following major steps taken to reorient the Company and improve its financial position.

1988

- sale of the majority of the bulk-shipping fleet;
- sale of Canadian Pacific's interest in The Algoma Steel Corporation, Limited;
- sale of certain operations of AMCA as well as land by CP Rail and Marathon Realty;
- acquisition of a controlling interest in Laidlaw Transportation Limited;
- purchase of CN Hotels and CN Telecommunications;
- acquisition of significant oil producing interests;
- internal expansion of core operations.

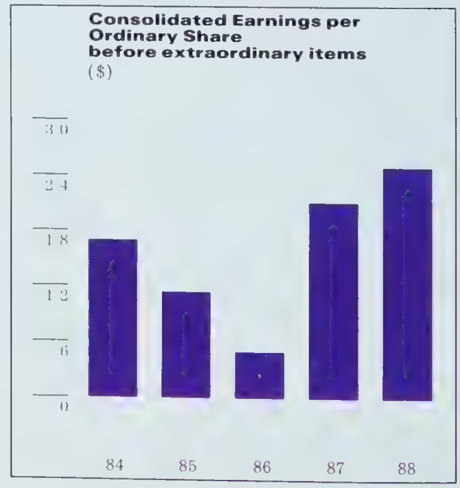
1987

- sale of Canadian Pacific Air Lines, Limited;
- sale of Maple Leaf Mills Limited;
- divestment of certain assets and operations of Soo Line, AMCA, CP Ships and CP Trucks;
- write-downs in respect of AMCA and of the leased hotels in West Germany.

1986

- sale of Canadian Pacific's interest in Cominco Ltd.;
- sale of certain assets and operations of AMCA, CP Hotels, Marathon Realty, Soo Line and CP Ships;
- write-downs in respect of the shipping fleet and certain other assets and operations.

In addition, holdings in Fording Coal and AMCA were consolidated in 1986, when CP Limited raised its ownership of Fording to 100% by acquiring Cominco's share, and purchased Algoma Steel's interest in AMCA, thereby increasing its ownership of AMCA to 50.6%. During 1988 CP Limited increased its interest in AMCA to 55.4% by participating in AMCA's share issues.



After a marked improvement in 1987, consolidated cash levels, although still healthy, declined $253.6 million in 1988, as additions to properties and the acquisition of businesses and investments totalling $3.1 billion exceeded cash from operations of $1.6 billion and proceeds from the sale of businesses, investments and properties amounting to $957.1 million. New borrowings in 1988 were almost entirely offset by debt repayment.

The debt:equity ratio improved to 32:68 at year-end 1988 from 38:62 at the end of 1987 and 43:57 at year-end 1986. Since the end of 1986, long term debt was reduced by $1.3 billion and stood at $3.8 billion by the end of 1988. While $0.6 billion of the decrease was the result of businesses sold during the period, the balance of $0.7 billion reflected efforts by the Company's continuing businesses to trim their debt. In 1988 the largest debt reduction was attributable to CP Forest Products where higher cash levels permitted a reduction in net debt of $334.0 million. Of the latter amount, $232.6 million represented borrowings from CP Securities. The Parent Company reduced its debt by $190.7 million.

Businesses incurring additional borrowings during 1988 included PanCanadian Petroleum, whose long term debt was up $321.5 million as a result of property acquisitions, and CP Hotels, where an increase of $188.9 million in net debt, together with an equity infusion by the Parent Company of $146.9 million, facilitated the financing of the CN Hotel purchase and the ongoing renovation program.

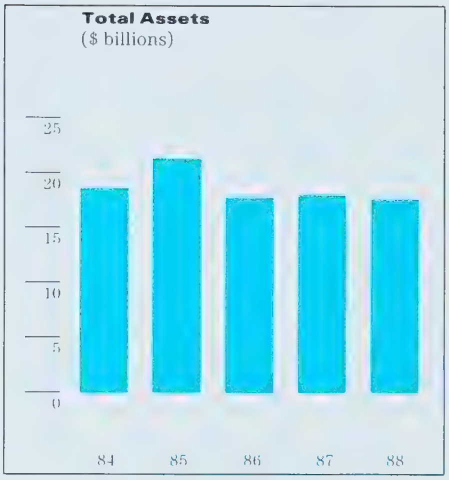
As for equity, CP Limited issued 14.1 million additional Ordinary shares in 1988 valued at $323.6 million, of which 12 million shares, or $279.0 million, were issued in connection with the acquisition of the interest in Laidlaw, with the balance issued under the Company's dividend reinvestment, share purchase and stock option plans. AMCA issued 101 million common shares, of which 57 million were to Canadian Pacific for $190.7 million, with the balance issued to the public for $134.6 million.

CP Limited increased twice its quarterly dividends on the Ordinary shares over the past two years – from $0.12 to $0.15 per share in the third quarter of 1987, then to $0.19 in the third quarter of 1988. This represented an increase of 58% since 1987.

Capital Expenditures and Commitments

1988 was a very active year for expansion and upgrading of the Company's core operations as well as for the acquisition of businesses and investments. Total spending on such activities amounted to $3.1 billion, compared with $1.5 billion in 1987 and $2.0 billion in 1986. The decrease in 1987 from 1986 was due to the sale of businesses.

In 1988 acquisition of businesses and investments included the purchase of CN Hotels for $265.5 million, Canadian National's partnership interest in CNCP Telecommunications for $235.0 million, and 47.2% of the voting stock of Laidlaw for $499.3 million.

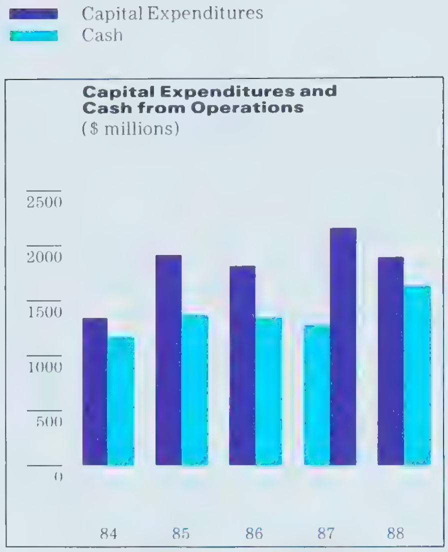


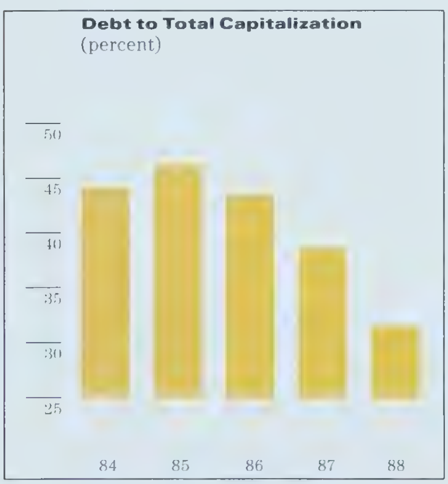
Total Assets
($ billions)

CP Rail's capital expenditures of $386.0 million in 1988 were for the completion of the Rogers Pass double tracking and grade reduction project, for equipment purchases, and for ongoing renewals and improvements to property. PanCanadian's capital expenditures amounted to $726.3 million and included $450.4 million for acquisitions, which are detailed in the Review of Operations on page 15. CP Forest Products spent $237.2 million in 1988, most of which was for construction of a white paper machine at its Dryden, Ontario, facilities, for an increase in its investment in the newsprint joint ventures, and for newsprint machine improvements. Marathon Realty invested $156.1 million to complete two office buildings,

and to continue its upgrading, expansion and development of shopping centres in Canada and the United States. CP Hotels' renovation and expansion program involved expenditures of $90.6 million.

Commitments for CP Limited's capital expenditures and real estate development totalled $789 million at year-end 1988, up from $396 million at year-end 1987 and $239 million at the end of 1986. The current commitments are principally for Marathon Realty's shopping centre, office building and land development projects, and for modernization and capacity expansion in the Forest Products segment. Internally generated cash or available lines of credit will cover the cost of the projects. As described in Note 21, unused commitments for long term financing were $2,412 million at the end of 1988, and unused lines of credit for short term financing amounted to $1,110 million.





Non-Consolidated Financial Review

CP Limited's non-consolidated earnings, consisting largely of income from CP Rail, CP Telecommunications and dividends from subsidiaries, amounted to $439.4 million before extraordinary items in 1988, compared with $381.1 million in 1987 and $252.9 million in 1986. The improvement in 1988 reflected mainly increased dividends from CP Forest Products and higher gains on land sales, which offset a decline in railway earnings. Income growth in 1987 over 1986 was primarily the result of higher earnings from CP Rail.

Earnings per Ordinary share, excluding extraordinary items, amounted to $1.42 in 1988, $1.27 in 1987 and $0.85 in 1986.

After extraordinary items, earnings were $408.8 million, compared with $541.8 million in 1987 and $2.0 million in 1986. In 1988 there was an extraordinary charge of $30.6 million representing a write-down and employee reduction charge in respect of CP Telecommunications, while in 1987 extraordinary income amounted to $160.7 million and stemmed from the sale of Canadian Pacific Air Lines, and in 1986 there was a charge of $250.9 million because of the permanent impairment in the value of CP Limited's investment in CP (Bermuda).

Assets of the Parent Company amounted to $8.1 billion at year-end 1988, compared with $7.8 billion at the end of 1987 and $7.1 billion at year-end 1986. Growth in 1988 came chiefly from additions to properties and investments, while the increase in 1987 over 1986 was primarily the result of higher cash levels. Equity per Ordinary share rose to $15.69 from $14.64 in 1987 and $13.35 in 1986. The debt:equity ratio improved steadily from 24:76 at the end of 1986 to 22:78 at year-end 1987 and 17:83 at December 31, 1988. Interest coverage was 6.4 times in 1988, compared with 6.1 times in 1987 and 4.2 times in 1986.

Cash levels, although still strong, declined during 1988, due largely to the acquisition of the Laidlaw shares and Canadian National's interest in CNCP Telecommunications.

Financial Statements

Statement of Consolidated Income

For the Year ended December 31	1988	1987	1986
	(in millions, except amounts per share)		
Operating Revenues			
Goods sold	$ 6,667.9	$ 6,948.2	$ 8,638.7
Services	5,348.4	5,260.4	6,475.1
	12,016.3	12,208.6	15,113.8
Costs and Expenses			
Cost of goods sold	4,617.3	4,948.5	6,828.3
Cost of services	3,349.4	3,270.2	4,148.5
Selling, general and administrative	1,417.0	1,357.3	1,769.4
Depreciation, depletion and amortization	762.0	752.5	967.0
	10,145.7	10,328.5	13,713.2
Operating Profit (Note 2)	1,870.6	1,880.1	1,400.6
Interest expense (Note 4)	452.0	514.6	737.4
Non-operating (income) expenses	(38.7)	45.9	237.8
Equity in income of affiliated company	(5.4)	—	—
Income before income taxes, minority interest and extraordinary items	1,462.7	1,319.6	425.4
Income taxes (Note 5)	539.8	578.9	308.4
Minority interest	148.4	104.0	(33.1)
Net income before extraordinary items (Note 2)	774.5	636.7	150.1
Extraordinary items (Note 6)	45.6	189.6	(230.4)
Net Income	$ 820.1	$ 826.3	$ (80.3)
Earnings per Ordinary Share			
Before extraordinary items	$ 2.50	$ 2.12	$ 0.50
After extraordinary items	$ 2.65	$ 2.75	$ (0.27)

Statement of Consolidated Retained Income

For the Year ended December 31	1988	1987	1986
		(in millions)	
Balance, January 1			
As previously reported	$ 4,067.2	$ 3,403.8	$ 3,637.9
Prior period adjustment (Note 7)	(28.5)	(28.5)	(28.5)
As restated	4,038.7	3,375.3	3,609.4
Net income	820.1	826.3	(80.3)
Merger and share issue costs	(9.0)	—	—
Loss arising from the decrease in shareholders' equity of a subsidiary due to the issuance of common shares	—	—	(10.1)
	4,849.8	4,201.6	3,519.0
Dividends			
4% Preference shares	0.5	0.5	0.5
Ordinary shares (per share: 1988 – 68¢; 1987 – 54¢; 1986 – 48¢)	211.1	162.4	143.2
Total dividends	211.6	162.9	143.7
Balance, December 31	$ 4,638.2	$ 4,038.7	$ 3,375.3

See Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	1988	1987	1986
		(in millions)	
Operating Activities			
Net income before extraordinary items	$ 774.5	$ 636.7	$ 150.1
Depreciation, depletion and amortization	762.0	752.5	967.0
Deferred income taxes	194.7	225.5	114.9
Minority shareholders' interest in income of subsidiaries	148.4	104.0	(33.1)
Other operating cash items, net	(208.6)	64.5	228.3
Cash from operations, before changes in working capital	1,671.0	1,783.2	1,427.2
Decrease (increase) in non-cash working capital balances relating to ongoing operations (Note 8)	(59.3)	343.7	(97.0)
Cash from operations	1,611.7	2,126.9	1,330.2
Dividends			
Paid to shareholders of the corporation	(196.9)	(153.5)	(143.0)
Paid to minority shareholders of subsidiaries	(57.7)	(63.2)	(83.3)
	(254.6)	(216.7)	(226.3)
Financing Activities			
Issuance of long term debt	997.0	616.5	737.3
Repayment of long term debt	(957.4)	(1,164.8)	(1,091.2)
Issuance of shares by subsidiaries	136.2	2.8	24.3
Redemption of Preferred shares by subsidiaries	(7.6)	(89.9)	(33.1)
Issuance of Ordinary shares by the corporation	323.6	68.7	29.5
	491.8	(566.7)	(333.2)
Investing Activities			
Business acquisitions and investments (Note 9)	(1,195.7)	(295.1)	(225.4)
Additions to properties	(1,863.9)	(1,254.7)	(1,787.8)
Sales of businesses, investments and properties	957.1	1,232.7	1,556.4
	(2,102.5)	(317.1)	(456.8)
Cash Position*			
Increase (decrease) in cash	(253.6)	1,026.4	313.9
Cash (deficit) at beginning of year	695.5	(330.9)	(644.8)
Cash (deficit) at end of year	$ 441.9	$ 695.5	$ (330.9)

*Cash comprises cash and temporary investments net of bank loans and notes payable.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet (December 31)

Assets	**1988**	1987
	(in millions)	
Current Assets		
Cash and temporary investments, at cost (approximates market)	**$ 580.2**	$ 1,165.8
Accounts receivable	**1,664.7**	1,730.1
Inventories (Note 11)	**983.6**	1,190.9
Other current assets	**148.9**	260.7
	3,377.4	4,347.5
Investments (Note 12)	**652.9**	418.4
Properties, at cost (Note 13)		
Transportation	**7,564.4**	7,767.8
Energy	**4,700.5**	3,951.9
Forest Products	**3,179.2**	2,853.3
Real Estate and Hotels	**2,873.7**	2,591.4
Telecommunications and Manufacturing	**1,427.6**	890.5
Discontinued Businesses	**—**	1,812.4
	19,745.4	19,867.3
Less: Accumulated depreciation, depletion and amortization	**6,550.4**	7,029.1
	13,195.0	12,838.2
Other Assets and Deferred Charges	**425.5**	396.6
	$ 17,650.8	$ 18,000.7

Auditors' Report

To the Shareholders of Canadian Pacific Limited:
We have examined the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1988 and 1987 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Canadian Pacific Limited as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1988 in accordance with generally accepted accounting principles in Canada which, except for the change in accounting for pension costs and obligations, with which we concur and which is described in Note 3 to the financial statements, have been consistently applied.

Price Waterhouse.

Chartered Accountants
Montreal, Quebec
March 10, 1989.

Liabilities and Shareholders' Equity	**1988**	1987
	(in millions)	
Current Liabilities		
Bank loans	**$ 125.8**	$ 302.2
Accounts payable and accrued liabilities	**2,022.8**	2,191.0
Notes payable	**12.5**	168.1
Income and other taxes payable	**229.8**	284.1
Dividends payable	**68.7**	52.4
Long term debt maturing within one year (Note 14)	**393.5**	614.6
	2,853.1	3,612.4
Deferred Liabilities	**302.4**	252.4
Long Term Debt (Note 14)	**3,442.5**	3,855.2
Perpetual 4% Consolidated Debenture Stock (Note 15)	**178.1**	197.7
Deferred Income Taxes	**2,114.1**	2,136.8
Deferred Income Credits (Note 16)	**384.1**	374.2
Minority Shareholders' Interest in Subsidiary Companies (Note 17)	**1,073.4**	1,139.0
Shareholders' Equity (Note 18)		
Preferred and Preference Shares	**14.9**	14.9
Ordinary Shares		
Issued – 316,857,840 (1987 – 302,791,388) shares	**1,182.3**	858.7
Premium on securities	**1,182.6**	1,182.6
Other paid-in surplus	**160.6**	161.2
Foreign currency translation adjustments	**124.5**	176.9
Retained income	**4,638.2**	4,038.7
	7,303.1	6,433.0
	$ 17,650.8	$ 18,000.7

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

Robert W. Campbell

Director

W.W. Atkinson

Director

1. Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Canadian Pacific Limited (the "Corporation") and all of its subsidiaries ("CP Limited"). All significant inter-company transactions and balances have been eliminated.

The principal companies and divisions included in each business segment are as follows:

December 31	**1988**	1987	1986
	Percentage Ownership		
Transportation and Waste Services			
CP Rail–a division of the Corporation			
Soo Line Corporation	**55.8%**	55.8%	55.8%
CP Ships			
Centennial Shipping Limited	**100**	100	100
Racine Terminal (Montreal) Limited	**100**	100	100
Canadian Pacific (Bermuda) Limited	**100**	100	100
CP Trucks			
Canadian Pacific Express & Transport Ltd.	**100**	100	100
Laidlaw Transportation Limited	**11.8**	—	—
Energy			
PanCanadian Petroleum Limited	**87.1**	87.1	87.1
Fording Coal Limited	**100**	100	100
Forest Products			
Canadian Pacific Forest Products Limited	**79.7**	(See Note 10)	
Real Estate and Hotels			
Marathon Realty Company Limited	**100**	100	100
Canadian Pacific Hotels Corporation	**100**	100	100
Telecommunications and Manufacturing			
CP Telecommunications – a division of the Corporation			
AMCA International Limited	**55.4**	50.6	50.6
Syracuse China Corporation	**100**	100	100
Processed Minerals Incorporated	**100**	100	100

The Corporation accounts for its investment in its affiliated company, Laidlaw Transportation Limited, on the equity method. Under this method, the Corporation's share of income from Laidlaw, less the amortization of the excess of the purchase price over net assets acquired is included in net income. Except for Canadian Pacific Forest Products Limited, which accounts for investments in joint ventures on the equity method, investments by other subsidiary companies in joint ventures are accounted for through proportional consolidation.

The major differences between Canadian and United States generally accepted accounting principles, insofar as they apply to CP Limited, are described under Supplementary Data (see page 56).

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

Inter-company Transactions
Total revenues and expenses as reported in the statement of consolidated income reflect the elimination of inter-company transactions. Inter-company transactions and balances have also been eliminated in CP Limited's statement of changes in consolidated financial position and consolidated balance sheet.

Earnings per Ordinary Share
Earnings per Ordinary Share are calculated after providing for dividends on the Corporation's Preference Shares using the weighted average number of Ordinary Shares outstanding during the year.

Foreign Currency Translation
Foreign currency assets and liabilities of CP Limited's Canadian operations are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Corporation's Perpetual 4% Consolidated Debenture Stock.

Pensions
For defined benefit plans, pension costs are actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of employees. Pension expense includes the cost of pension benefits earned during the current year and the amortization of adjustments arising from pension plan amendments, experience gains and losses and changes in assumptions. The amortization period covers the expected average remaining service lives of employees covered by the various plans. The difference between the market related value of pension fund assets and the present value of accrued pension benefits at January 1, 1987 (the date the present accounting policy was adopted by CP Limited) is also being amortized over the expected average remaining service lives of plan employees.

For defined contribution plans, pension costs generally equal plan contributions made during the current year.

Inventories
Rail materials and supplies, which consist primarily of fuel oil, repair or replacement materials for road and equipment property, are valued at average cost.

Raw materials and supplies are valued at the lower of cost and replacement cost.

Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts.

Finished goods are valued at the lower of cost and net realizable value.

Properties
Transportation: Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following CP Rail expenditures which are charged to expenses: labour costs relating to track structure replacements; interest on funds borrowed to finance capital expenditures; renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for railways subject to regulation by the National Transportation Agency of Canada.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the National Transportation Agency of Canada and by the Interstate Commerce Commission for the Soo Line Railroad Company. When railway depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
Road diesel locomotives	27 to 40
Freight cars	25 to 51
Ties	28
Rails – in first position	21
– in other than first position	45
Ships	20
Trucks and trailers	7 to 12

Energy: CP Limited follows the full cost method of accounting for oil and gas properties, whereby all costs related to the exploration for and the development of conventional oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proven reserves, with net production and reserve volumes of natural gas and natural gas liquids converted to equivalent energy units of crude oil.

In determining the depletion and depreciation provisions, CP Limited includes any excess of the net book value of conventional oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proven oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centres over the total unescalated, undiscounted future net operating revenues from proven oil and natural gas reserves, less future general and administrative expenses, financing costs and income taxes. Prices utilized in the ceiling test calculations are the weighted average product prices prevailing at year end which CP Limited receives for its production.

Depreciation of conventional oil and natural gas plant, production and other equipment is provided for on the unit of production basis. The Empress and Syncrude facilities and the methanol plant are depreciated on the straight-line basis over the estimated productive lives of the assets.

Expenditures by CP Limited to acquire, explore for and develop identified coal properties are capitalized, net of costs relating to raw coal production during the development phase, pending evaluation and completion. Expenditures on general exploration for producing properties are charged against income as incurred.

Abandoned coal properties are charged against income in the year of abandonment.

Depletion on operating mines is provided using a unit of production method based on the proven mineral reserve position.

Interest on funds borrowed to finance major energy projects is capitalized during the construction period.

Forest Products: Plants and properties are stated at cost. Pulp and paper mills are depreciated on a unit of production basis over their estimated economic lives. Other plants are depreciated on a straight-line basis over their estimated economic lives.

Interest on debt incurred to finance major expansion programs is capitalized during the construction period.

Real Estate and Hotels: Real estate and hotel properties are stated at cost, except for properties held for sale which are stated at the lower of cost and net realizable value. Cost includes carrying costs, principally real estate taxes, interest, the applicable portion of salaries and expenses of development personnel and, for income properties, initial leasing costs.

All operating and carrying costs net of rental revenues are capitalized for income properties under construction until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time. Interest on funds used to finance new hotel facilities and major hotel renovations is capitalized during the construction period. Income from land sales is recorded in proportion to cash received when all material conditions of the contract have been fulfilled while income from sales of income properties is recorded in proportion to proceeds realized.

The sinking fund method of providing depreciation is used for buildings. This method will write off the cost of the buildings over their estimated useful lives (up to a maximum of 40 years) in a series of annual instalments increasing at the rate of 5% compounded annually.

Telecommunications and Manufacturing: Property, plant and equipment are recorded at cost which, in the case of new manufacturing facilities, includes interest during construction. Maintenance and repairs are expensed as incurred.

Depreciation of plant and equipment is provided principally on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Rates for telecommunications equipment are approved by the Canadian Radio-television and Telecommunications Commission.

2. Segmented Information

Business Segments

CP Limited carries on its activities through five principal classes of business: Transportation and Waste Services, Energy, Forest Products, Real Estate and Hotels, and Telecommunications and Manufacturing. The business segments are based upon the major activities of significant subsidiaries and divisions of CP Limited.

With the exception of CP Rail and CP Telecommunications, whose results reflect interest, corporate overhead and income tax allocations made by the Corporation, the results of other entities are based upon their reported net incomes adjusted, where applicable, for acquisition-related costs. Interest charges are allocated to CP Rail and CP Telecommunications, both divisions of the Corporation, based principally on cash flow, corporate overhead on the basis of cost of operations, and income taxes on the basis of each division's accounting income as adjusted for non-taxable items.

Charges between entities within the same business segment, which are made at normal tariff or other arm's length rates, are eliminated in reporting revenues and expenses by business segment. Services provided by enti-

(in millions)		Total Revenues	Cost of Goods and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization
Transportation and Waste Services					
CP Rail	**1988**	**$ 2,730.5**	**$ 1,681.7**	**$ 494.5**	**$ 139.0**
	1987	2,791.5	1,655.5	484.2	136.8
	1986	2,571.2	1,569.8	473.9	137.7
Soo Line Corporation	**1988**	**710.7**	**540.1**	**64.2**	**42.0**
	1987	819.7	650.6	50.7	53.7
	1986	889.8	711.1	67.4	57.5
CP Ships	**1988**	**447.2**	**301.3**	**62.8**	**20.4**
	1987	420.8	277.3	60.5	23.4
	1986	367.9	246.6	61.0	33.3
CP Trucks	**1988**	**481.4**	**385.8**	**70.9**	**20.2**
	1987	446.2	346.0	64.7	18.2
	1986	424.9	330.0	58.1	16.6
Laidlaw Transportation Limited	**1988**	—	—	—	—
Total (after elimination of intra-segment items)	**1988**	**$ 4,311.7**	**$ 2,850.8**	**$ 692.4**	**$ 221.6**
	1987	4,423.2	2,874.4	660.1	232.1
	1986	4,199.3	2,803.0	660.4	245.1
Energy					
PanCanadian Petroleum Limited	**1988**	**$ 691.3**	**$ 237.4**	**$ 43.3**	**$ 216.9**
	1987	698.7	186.3	40.2	171.6
	1986	717.0	243.6	47.1	157.1
Fording Coal Limited	**1988**	**336.0**	**139.3**	**140.0**	**17.7**
	1987	290.0	125.7	122.4	14.9
	1986	326.6	147.6	121.5	16.6
Total	**1988**	**$ 1,027.3**	**$ 376.7**	**$ 183.3**	**$ 234.6**
	1987	988.7	312.0	162.6	186.5
	1986	1,043.6	391.2	168.6	173.7
Forest Products					
Canadian Pacific Forest Products Limited	**1988**	**$ 2,996.7**	**$ 2,173.8**	**$ 94.0**	**$ 150.7**
	1987	2,784.2	2,054.4	101.4	146.6
	1986	2,333.4	1,894.5	70.5	139.7

ties in the Transporation and Waste Services segment to other entities in this segment yielded revenues in 1988 of \$58.1 million (1987 – \$55 million; 1986 – \$54.5 million).

Charges between entities in different business segments, which are made at normal tariff or other arm's length rates, are not eliminated in reporting revenues and expenses by business segment. Consolidated net income is not affected by this practice. Services provided by the Corporation's Transportation and Waste Services segment to other business segments yielded revenues in 1988 of \$195.7 million (1987 – \$200.7 million; 1986 – \$258.8 million). Interest revenue earned by the Telecommunications and Manufacturing segment on loans to other business segments amounted to \$90.4 million in 1988 (1987 – \$71.9 million; 1986 – \$93 million). Other charges between business segments amounted to \$65.3 million in 1988 (1987 – \$119.1 million; 1986 – \$121.4 million).

Cost of goods and services includes costs for maintenance and repairs amounting to \$1,545.9 million in 1988 (1987 – \$1,570.1 million; 1986 – \$1,829.2 million).

Operating Profit	Interest	Other (Income) Expenses	Income Taxes	Minority Interest	Income before Extraordinary Items	Identifiable Assets	Additions to Properties
\$ 415.3	**\$ 87.9**	**\$ (14.2)**	**\$ 160.4**	**\$ —**	**\$ 181.2**	**\$ 4,800.4**	**\$ 386.0**
515.0	100.1	0.4	220.9	—	193.6	4,249.2	316.5
389.8	100.3	13.9	156.8	—	118.8	4,138.6	475.5
64.4	**41.9**	**(8.4)**	**11.6**	**8.5**	**10.8**	**1,053.1**	**45.8**
64.7	53.0	31.5	(9.6)	(4.5)	(5.7)	1,166.0	34.5
53.8	56.8	113.5	(56.5)	(26.5)	(33.5)	1,479.0	33.0
62.7	**3.8**	**(0.4)**	**6.4**	**2.5**	**50.4**	**376.0**	**12.6**
59.6	9.8	—	5.7	1.1	43.0	319.1	9.4
27.0	15.3	—	6.1	5.5	0.1	353.1	21.5
4.5	**6.2**	**—**	**(0.7)**	**—**	**(1.0)**	**227.8**	**18.4**
17.3	5.9	9.2	5.7	—	(3.5)	226.0	28.7
20.2	5.8	—	7.1	—	7.3	223.1	23.5
—	**—**	**—**	**—**	**—**	**5.4**	**503.3**	**—**
\$ 546.9	**\$ 139.8**	**\$ (23.0)**	**\$ 177.7**	**\$ 11.0**	**\$ 246.8**	**\$ 6,960.6**	**\$ 462.8**
656.6	168.8	41.1	222.7	(3.4)	227.4	5,960.3	389.1
490.8	178.2	127.4	113.5	(21.0)	92.7	6,193.8	553.5
\$ 193.7	**\$ 21.6**	**\$ 0.9**	**\$ 63.1**	**\$ 16.1**	**\$ 92.0**	**\$ 2,878.0**	**\$ 726.3**
300.6	9.5	0.4	124.8	23.4	142.5	2,574.5	214.3
269.2	22.4	93.5	106.4	7.8	39.1	2,375.1	172.5
39.0	**0.2**	**—**	**8.3**	**—**	**30.5**	**337.9**	**31.0**
27.0	3.2	—	7.6	—	16.2	321.0	22.5
40.9	5.2	—	17.1	1.0	17.6	318.0	22.5
\$ 232.7	**\$ 21.8**	**\$ 0.9**	**\$ 71.4**	**\$ 16.1**	**\$ 122.5**	**\$ 3,215.9**	**\$ 757.3**
327.6	12.7	0.4	132.4	23.4	158.7	2,895.5	236.8
310.1	27.6	93.5	123.5	8.8	56.7	2,693.1	195.0
\$ 578.2	**\$ 40.5**	**\$ (16.8)**	**\$ 220.9**	**\$ 74.0**	**\$ 259.6**	**\$ 2,900.8**	**\$ 237.2**
481.8	85.4	(4.2)	179.1	51.5	170.0	2,729.7	172.1
228.7	128.8	5.3	49.0	16.4	29.2	2,575.2	162.2

2. Segmented Information (cont'd)

(in millions)		Total Revenues	Cost of Goods and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization
Real Estate and Hotels					
Marathon Realty Company Limited	**1988**	**$ 426.0**	**$ 189.3**	**$ 29.6**	**$ 33.1**
	1987	364.7	149.3	27.1	27.7
	1986	332.9	147.7	22.9	22.4
CP Rail	**1988**	**55.6**	—	—	—
	1987	2.7	—	—	—
	1986	0.7	—	—	—
Canadian Pacific Hotels Corporation	**1988**	**364.2**	**233.7**	**58.1**	**17.1**
	1987	295.6	211.8	44.7	11.2
	1986	311.3	192.2	71.5	12.5
Total	**1988**	**$ 845.8**	**$ 423.0**	**$ 87.7**	**$ 50.2**
	1987	663.0	361.1	71.8	38.9
	1986	644.9	339.9	94.4	34.9
Telecommunications and Manufacturing					
CP Telecommunications	**1988**	**$ 147.5**	**$ 104.3**	**$ 21.7**	**$ 20.7**
	1987	158.3	89.9	29.4	22.3
	1986	171.9	92.0	29.2	25.9
AMCA International Limited	**1988**	**1,803.1**	**1,458.4**	**227.1**	**29.4**
	1987	1,486.9	1,197.9	203.2	34.9
	1986	2,421.8	2,128.1	190.9	39.8
Syracuse China Corporation	**1988**	**77.6**	**52.7**	**16.1**	**3.2**
	1987	57.6	32.1	11.5	2.8
	1986	61.9	33.5	11.1	2.6
Processed Minerals Incorporated	**1988**	**39.9**	**19.2**	**6.8**	**3.7**
	1987	48.4	24.9	7.8	5.0
	1986	45.1	23.8	7.2	4.8
Other	**1988**	**210.7**	**126.9**	**66.2**	**1.7**
	1987	205.3	117.5	69.4	1.9
	1986	187.4	110.7	63.8	1.2
Total	**1988**	**$ 2,278.8**	**$ 1,761.5**	**$ 337.9**	**$ 58.7**
	1987	1,956.5	1,462.3	321.3	66.9
	1986	2,888.1	2,388.1	302.2	74.3
Discontinued Businesses	**1988**	**$ 907.4**	**$ 732.3**	**$ 21.7**	**$ 46.2**
	1987	1,784.7	1,546.2	40.1	81.5
	1986	4,477.7	3,633.3	473.3	299.3
Consolidated Total (after elimination of inter-segment items)	**1988**	**$12,016.3**	**$ 7,966.7**	**$ 1,417.0**	**$ 762.0**
	1987	12,208.6	8,218.7	1,357.3	752.5
	1986	15,113.8	10,976.8	1,769.4	967.0

Operating Profit	Interest	Other (Income) Expenses	Income Taxes	Minority Interest	Income before Extraordinary Items	Identifiable Assets	Additions to Properties
$ 174.0	**$ 119.1**	**$ —**	**$ 15.6**	**$ 0.3**	**$ 39.0**	**$ 2,131.9**	**$ 156.1**
160.6	107.5	—	18.9	0.8	33.4	2,155.6	194.3
139.9	91.0	—	19.3	0.7	28.9	1,857.4	317.1
55.6	**—**	**—**	**13.3**	**—**	**42.3**	**—**	**—**
2.7	—	—	0.4	—	2.3	—	—
0.7	—	—	0.1	—	0.6	—	—
55.3	**13.0**	**8.4**	**12.9**	**—**	**21.0**	**677.6**	**90.6**
27.9	0.8	—	12.3	—	14.8	312.0	100.1
35.1	6.2	—	14.6	—	14.3	323.4	46.0
$ 284.9	**$ 132.1**	**$ 8.4**	**$ 41.8**	**$ 0.3**	**$ 102.3**	**$ 2,809.5**	**$ 246.7**
191.2	108.3	—	31.6	0.8	50.5	2,467.6	294.4
175.7	97.2	—	34.0	0.7	43.8	2,180.8	363.1
$ 0.8	**$ 7.0**	**$ (0.3)**	**$ (2.4)**	**$ —**	**$ (3.5)**	**$ 504.1**	**$ 66.1**
16.7	5.3	13.5	(1.0)	—	(1.1)	212.3	39.7
24.8	5.2	1.2	10.3	—	8.1	204.2	31.2
88.2	**45.3**	**—**	**11.6**	**20.2**	**11.1**	**1,340.5**	**46.1**
50.9	51.1	—	3.6	3.2	(7.0)	1,029.0	32.3
63.0	56.2	—	38.5	(11.7)	(20.0)	1,490.2	31.2
5.6	**1.2**	**—**	**1.7**	**—**	**2.7**	**58.2**	**3.0**
11.2	0.2	—	5.0	—	6.0	43.0	2.4
14.7	0.5	—	6.9	—	7.3	49.6	2.2
10.2	**0.3**	**(2.1)**	**3.3**	**—**	**8.7**	**30.1**	**7.2**
10.7	0.5	—	3.2	—	7.0	66.4	4.4
9.3	0.6	—	3.6	—	5.1	67.2	4.1
15.9	**27.3**	**(3.9)**	**(8.0)**	**—**	**0.5**	**1,602.0**	**2.2**
16.5	26.0	(1.3)	(17.9)	—	9.7	1,947.5	21.5
11.7	46.3	0.1	(28.9)	(0.1)	(5.7)	1,060.8	5.3
$ 120.7	**$ 81.1**	**$ (6.3)**	**$ 6.2**	**$ 20.2**	**$ 19.5**	**$ 3,534.9**	**$ 124.6**
106.0	83.1	12.2	(7.1)	3.2	14.6	3,298.2	100.3
123.5	108.8	1.3	30.4	(11.8)	(5.2)	2,872.0	74.0
$ 107.2	**$ 36.7**	**$ (1.9)**	**$ 21.8**	**$ 26.8**	**$ 23.8**	**$ —**	**$ 35.3**
116.9	56.3	(3.6)	20.2	28.5	15.5	1,637.7	62.0
71.8	196.8	10.3	(42.0)	(26.2)	(67.1)	2,036.2	440.0
$ 1,870.6	**$ 452.0**	**$ (38.7)**	**$ 539.8**	**$ 148.4**	**$ 774.5**	**$17,650.8**	**$ 1,863.9**
1,880.1	514.6	45.9	578.9	104.0	636.7	18,000.7	1,254.7
1,400.6	737.4	237.8	308.4	(33.1)	150.1	17,698.7	1,787.8

2. Segmented Information (cont'd)

	1988	1987	1986
		(in millions)	
Geographic Segments			
Canada			
Revenues			
Domestic	**$ 6,214.5**	$ 6,695.8	$ 7,492.1
Export	**3,116.4**	2,886.5	3,902.9
Inter-company revenues	**(409.5)**	(446.7)	(527.8)
Total revenues	**$ 8,921.4**	$ 9,135.6	$ 10,867.2
Net income before extraordinary items	**$ 712.5**	$ 597.0	$ 292.0
Identifiable assets	**$ 15,646.2**	$ 15,265.4	$ 14,384.1
United States			
Total revenues	**$ 2,331.4**	$ 2,356.8	$ 3,631.2
Net income before extraordinary items	**$ 7.1**	$ (9.8)	$ (166.8)
Identifiable assets	**$ 3,138.6**	$ 3,238.5	$ 3,543.2
Other Countries			
Total revenues	**$ 763.5**	$ 716.2	$ 615.4
Net income before extraordinary items	**$ 54.9**	$ 49.5	$ 24.9
Identifiable assets	**$ 636.9**	$ 485.1	$ 623.8
Summary			
Total revenues	**$ 12,016.3**	$ 12,208.6	$ 15,113.8
Net income before extraordinary items	**$ 774.5**	$ 636.7	$ 150.1
Identifiable assets	**$ 19,421.7**	$ 18,989.0	$ 18,551.1
Eliminations	**(1,770.9)**	(988.3)	(852.4)
	$ 17,650.8	$ 18,000.7	$ 17,698.7

3. Changes in Accounting Policies

Pensions
Effective January 1, 1987, CP Limited adopted on a prospective basis the recommendations of the Canadian Institute of Chartered Accountants (CICA) on accounting for pension costs and obligations. The change in accounting did not have any significant impact on 1988 and 1987 consolidated net income (see also Note 20).

Oil and Gas Properties
During 1986 PanCanadian Petroleum Limited adopted on a retroactive basis the rules contained in a guideline issued by the CICA for applying the full cost method of accounting in the oil and gas industry. The primary effect of the change in accounting was an unusual charge in 1986 of $82.5 million representing CP Limited's share of a $94.8 million ceiling test write-down on PanCanadian's non-Canadian operations occasioned by a significant decline in world oil prices.

4. Interest Expense

	1988	1987	1986
		(in millions)	
Long term debt and debenture stock	**$ 446.6**	$ 494.0	$ 697.4
Short term debt	**54.1**	46.4	94.5
	500.7	540.4	791.9
Less: Interest capitalized on funds borrowed to finance capital projects	**48.7**	25.8	54.5
	$ 452.0	$ 514.6	$ 737.4

5. Income Taxes

		1988	1987	1986
			(in millions)	
Canadian				
Before extraordinary items	– Current	$ **320.6**	$ 330.1	$ 173.6
	– Deferred	**185.0**	241.9	144.8
		505.6	572.0	318.4
Extraordinary items	– Current	**0.8**	58.2	—
	– Deferred	**(29.2)**	36.1	(28.5)
		(28.4)	94.3	(28.5)
		$ **477.2**	$ 666.3	$ 289.9
Foreign				
Before extraordinary items	– Current	$ **24.5**	$ 23.3	$ 19.9
	– Deferred	**9.7**	(16.4)	(29.9)
		34.2	6.9	(10.0)
Extraordinary items	– Current	**—**	6.3	—
	– Deferred	**—**	(4.2)	—
		—	2.1	—
		$ **34.2**	$ 9.0	$ (10.0)
Total				
Before extraordinary items	– Current	$ **345.1**	$ 353.4	$ 193.5
	– Deferred	**194.7**	225.5	114.9
		539.8	578.9	308.4
Extraordinary items	– Current	**0.8**	64.5	—
	– Deferred	**(29.2)**	31.9	(28.5)
		$ **(28.4)**	$ 96.4	$ (28.5)
		$ **511.4**	$ 675.3	$ 279.9
The deferred income tax provision arose as follows:				
Excess of tax over book depreciation		$ **146.7**	$ 260.7	$ 121.0
Exploration and development allowances		**25.7**	18.2	10.1
Losses tax affected		**(67.7)**	(52.5)	(75.8)
Other		**60.8**	31.0	31.1
		$ **165.5**	$ 257.4	$ 86.4
Income tax at the statutory tax rate may be reconciled to the effective tax as follows:				
Income tax at the statutory rate		$ **699.2**	$ 746.7	$ 27.3
Depletion and resource allowances		**(57.8)**	(66.3)	(47.7)
Foreign tax differentials		**(79.8)**	(26.2)	(20.5)
Reduction of tax benefits previously recorded		**—**	—	29.9
Royalties and mineral reserve tax		**15.2**	18.7	17.5
Manufacturing and processing credits		**(24.8)**	(27.9)	(5.9)
Loss carry forwards recognized		**(9.4)**	(19.6)	—
Losses not tax affected		**12.7**	13.5	116.7
Extraordinary losses not tax affected		**—**	115.7	200.8
Capital gains rate differential		**(17.9)**	(127.4)	(52.2)
Other		**(26.0)**	48.1	14.0
Income taxes as charged to income		$ **511.4**	$ 675.3	$ 279.9

6. Extraordinary Items

Extraordinary items consist of the following:

	Proceeds	Gain/(Loss) before Income Taxes	Gain/(Loss) after Income Taxes
		(in millions)	
Sale of investment in The Algoma Steel Corporation, Limited in August	$ 246.2	$ (25.6)	$ (26.4)
Sale of eighteen vessels by a wholly-owned subsidiary during the period August to December	176.3	102.6	102.6
Write-down of assets and restructuring costs in respect of CP Telecommunications, net of income taxes of $29.2 million			(30.6)
			$ 45.6

The 1987 extraordinary net gain of $189.6 million consists of extraordinary gains totalling $354.1 million offset by extraordinary charges totalling $164.5 million. The extraordinary gains arose from the sale of the Corporation's investments in Canadian Pacific Air Lines, Limited ($172.5 million) and Maple Leaf Mills Limited ($160.8 million) and from the sale of an office building by a wholly-owned subsidiary ($20.8 million). The extraordinary charges comprise $124.2 million representing CP Limited's share of asset write-downs by AMCA and $40.3 million for the loss from the planned disposition of German hotel properties leased by Canadian Pacific Hotels Corporation.

The 1986 extraordinary net charge of $230.4 million resulted from the write-down in the value of assets in the amount of $362.5 million, offset by a gain of $102.6 million from the sale of the Corporation's investment in Cominco Ltd. and a gain of $29.5 million from the sale of CP Hotels' flight kitchens.

7. Prior Period Adjustment

The Corporation was assessed for income taxes of $23.6 million and related interest of $14.7 million applicable to the years 1980 to 1983. Of the total amount assessed, $28.5 million has been charged to retained income as a prior period adjustment, and $9.8 million has been recorded as a reduction in deferred income taxes.

8. Changes in Non-Cash Working Capital Balances	**1988**	1987	1986
		(in millions)	
Decrease (increase) in current assets			
Accounts receivable	**$ 65.4**	$ 144.7	$ 470.0
Inventories	**207.3**	77.9	779.1
Other current assets	**111.8**	268.1	(409.8)
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	**(168.2)**	103.9	(723.3)
Income and other taxes payable	**(54.3)**	177.3	(17.0)
Decrease in non-cash working capital balances during year	**162.0**	771.9	99.0
Increase in non-cash working capital balances relating to extraordinary items	**(221.3)**	(428.2)	(196.0)
Decrease (increase) in non-cash working capital balances relating to ongoing operations	**$ (59.3)**	$ 343.7	$ (97.0)

9. Business Acquisitions and Investments

During 1988, CP Limited incurred expenditures of $1,195.7 million on business acquisitions and investments as follows:

		(in millions)
Acquisition of:		
CN Hotels (see below)	$	265.5
CNCP and TTS (see below)		235.0
Investment by the Corporation in Laidlaw Transportation Limited (see below)		499.3
Acquisitions and investments by subsidiaries		195.9
	$	1,195.7

In April 1988, the Corporation, through its wholly-owned subsidiary, Canadian Pacific Hotels Corporation, acquired the CN Hotels chain consisting of nine owned or managed hotels for $265.5 million.

In December 1988, the Corporation acquired Canadian National Railway's share of the net assets of both CNCP Telecommunications (CNCP) and Telecommunications Terminal Systems (TTS) for $235 million. Prior to the acquisition, both CNCP and TTS were operated as equal partnerships by Canadian National Railways and the Corporation.

The acquisitions have been accounted for by the purchase method and the results of operations from the acquired assets are included in CP Limited's consolidated results from the dates of acquisition. A summary of the assets acquired and liabilities assumed is as follows:

		CN Hotels		CNCP & TTS		Total
				(in millions)		
Assets	$	274.8	$	276.1	$	550.9
Liabilities		9.3		41.1		50.4
Cash consideration	$	265.5	$	235.0	$	500.5

Neither of the acquisitions had a material effect on CP Limited's consolidated revenues, consolidated income and consolidated financial position. In addition, if the acquisitions had taken place on January 1, 1987, they would have had no material effect.

On July 15, 1988, the Corporation acquired 22,500,000 Class A shares of Laidlaw Transportation Limited (Laidlaw) for $499.3 million or $22.19 per share. The purchase price was satisfied by the issue of 12,000,000 Ordinary Shares of the Corporation valued at $279 million and the balance in cash. Of the cash portion of the purchase price, $64.4 million is payable on July 15, 1989. This liability, which is included under accounts payable and accrued liabilities and bears interest at prime, is due to a Director of the Corporation.

Goodwill of approximately $392 million, representing the amount by which the purchase price exceeded the fair value of Laidlaw's assets at the date of purchase, is being written off over a period of forty years.

The Laidlaw shares purchased represented 47.2% of Laidlaw's Class A voting shares and 12.8% of the combined Class A shares and Class B non-voting shares of Laidlaw. As a result of the conversion of Laidlaw preference shares into Class B non-voting shares (primarily during August 1988), the Corporation's ownership interest in Laidlaw, based on the combined number of Class A and Class B non-voting shares outstanding, was 11.84% at December 31, 1988.

9. Business Acquisitions and Investments (cont'd)

At December 31, 1988, Laidlaw had outstanding additional preference shares which are convertible into Class B non-voting shares. If such shares had been converted at December 31, 1988, the Corporation's ownership interest in Laidlaw would have been 10.97%. Also at December 31, 1988, Laidlaw has various stock options outstanding. The exercise of these options will not significantly affect the Corporation's ownership interest in Laidlaw.

The following is a summary of the reported results and financial position of Laidlaw:

For the Year ended August 31	**1988**	1987	1986
		($ U.S. in millions)	
Revenues	**$ 1,183.0**	$ 892.9	$ 516.7
Income from operations	**204.1**	141.4	76.6
Net income	**147.4**	92.3	47.7
Net income applicable to Class A and Class B shares	**133.6**	81.9	41.3

August 31	**1988**	1987
	($ U.S. in millions)	
Total assets	**$ 1,636.9**	$ 1,254.2
Total liabilities	**730.3**	391.3
Shareholders' equity	**906.6**	862.9

During 1988 the Corporation, through its wholly-owned subsidiary Canadian Pacific Enterprises Limited, participated in two rights offerings by its subsidiary, AMCA International Limited (AMCA). In addition to subscribing for its proportionate share of the rights offerings, the Corporation also purchased shares not subscribed for by AMCA's other common shareholders. After these purchases, the Corporation's ownership interest in AMCA had increased from 50.6% to 55.4%. The excess of cost over book value of the increased ownership interest in AMCA, which amounts to approximately $10 million, has been allocated to AMCA's depreciable assets.

10. Canadian Pacific Forest Products Limited

On June 2, 1988, Great Lakes Forest Products Limited (Great Lakes), a 54.3% owned subsidiary of the Corporation, and CIP Inc., a wholly-owned subsidiary of the Corporation, were merged to form Canadian Pacific Forest Products Limited. The merger was implemented through the acquisition by Great Lakes of all the outstanding shares of CIP Inc. in exchange for 24,421,775 common shares of Great Lakes. The Corporation, which has a 79.7% ownership interest in the merged company, accounted for the transaction as a purchase of additional shares in Great Lakes for consideration equivalent to the carrying value of the Corporation's investment in CIP. The excess of the acquisition cost over the book value of the Great Lakes shares acquired (approximately $94 million) has been allocated to Forest Products land assets.

Earnings from Canadian Pacific Forest Products for 1988 incorporate the Corporation's share of CIP's and Great Lakes' 1988 earnings prior to the merger and the Corporation's share of the merged company's earnings thereafter. For comparative purposes, the Corporation's quarterly and annual earnings from CIP and Great Lakes prior to the merger, as previously reported, have been aggregated. Similarly, balance sheet data on CIP and Great Lakes covering periods prior to the merger have also been aggregated for comparative purposes.

11. Inventories

	1988	1987
	(in millions)	
Rail materials and supplies	**$ 201.5**	$ 222.5
Raw materials	**278.9**	394.2
Work in progress	**126.8**	157.6
Finished goods	**232.9**	231.0
Stores and materials	**143.5**	185.6
	$ 983.6	$ 1,190.9

12. Investments

	1988	1987
	(in millions)	
Accounted for on the equity basis:		
Laidlaw Transportation Limited	**$ 503.3**	$ —
Gold River Newsprint Limited Partnership	**38.1**	16.3
Ponderay Newsprint Company	**16.3**	6.2
Other	**19.0**	229.8
Accounted for on the cost basis	**76.2**	166.1
	$ 652.9	$ 418.4

13. Properties and Accumulated Depreciation, Depletion and Amortization

	1988			1987
	(in millions)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
Transportation				
CP Rail	$ 5,866.3	$ 2,015.9	**$ 3,850.4**	$ 3,620.6
Soo Line Corporation	1,170.2	335.9	**834.3**	906.6
CP Ships	287.8	189.2	**98.6**	194.0
CP Trucks	240.1	108.0	**132.1**	137.1
	7,564.4	2,649.0	**4,915.4**	4,858.3
Energy				
PanCanadian Petroleum Limited	4,248.9	1,553.5	**2,695.4**	2,185.8
Fording Coal Limited	451.6	189.9	**261.7**	249.6
	4,700.5	1,743.4	**2,957.1**	2,435.4
Forest Products				
Canadian Pacific Forest Products Limited	3,179.2	1,154.1	**2,025.1**	1,830.2
Real Estate and Hotels				
Marathon Realty Company Limited	2,176.2	152.7	**2,023.5**	2,074.1
Canadian Pacific Hotels Corporation	697.5	110.0	**587.5**	282.7
	2,873.7	262.7	**2,611.0**	2,356.8
Telecommunications and Manufacturing				
CP Telecommunications	923.3	480.6	**442.7**	190.6
AMCA International Limited	387.5	215.6	**171.9**	148.2
Syracuse China Corporation	43.7	19.9	**23.8**	20.1
Processed Minerals Incorporated	20.9	7.7	**13.2**	33.7
Other	52.2	17.4	**34.8**	45.2
	1,427.6	741.2	**686.4**	437.8
Discontinued Businesses	—	—	—	919.7
	$ 19,745.4	$ 6,550.4	**$ 13,195.0**	$ 12,838.2

14. Long Term Debt

	1988	1987
	(in millions)	
Canadian Pacific Limited		
8½% – 11¼% Collateral Trust Bonds due 1989-1995	**$ 91.9**	$ 207.2
8½% – 10⅛% Equipment Trust Certificates due 1989-1998	**141.9**	196.8
7.5% – 12.5% Debentures due 1990-1999	**561.5**	607.9
Obligations under capital leases due 1989-2000	**44.6**	18.7
Soo Line Corporation		
7½% – 13⅝% Equipment Trust Certificates due 1989-1996	**43.1**	56.6
10¾% – 12.95% Notes due 1991-2005	**229.2**	238.4
Bank loans and sundry borrowings due 1989-1997	**84.7**	54.9
Obligations under capital leases due 1989-1999	**38.6**	52.6
Centennial Shipping Limited		
Bank loans and sundry borrowings due 1989-1990	**16.3**	10.6
Obligations under capital leases due 1989-1991	**5.9**	14.2
Canadian Pacific (Bermuda) Limited		
Obligation under capital lease due 1989-1991	**4.2**	5.8
Canadian Pacific Express & Transport Ltd.		
Notes due 1989	**43.5**	39.5
Sundry – due 1989	**1.6**	0.2
PanCanadian Petroleum Limited		
8⅛% – 12½% Debentures due 1989-1993	**84.8**	86.1
Bank loans	**322.8**	—
Fording Coal Limited		
10% Notes due 1989-1993	**33.5**	47.0
Canadian Pacific Forest Products Limited		
8% – 11¼% Sinking Fund Bonds due 1988	**—**	29.1
Bank loans due 1989-1995	**105.7**	130.6
3% – 9¾% Notes due 1989-1998	**6.5**	137.1
Sundry – due 1989-1997	**97.9**	247.3
Marathon Realty Company Limited		
8.3% – 14.75% Sinking Fund Bonds due 1989-2007	**367.9**	372.4
Mortgages due 1989-2018	**442.5**	491.2
Bank loans due 1989-1993	**405.3**	357.6
Sundry – due 1989-1997	**145.0**	158.6
Canadian Pacific Hotels Corporation		
10% – 10½% Notes due 1993-1995	**200.0**	—
Bank loans and sundry borrowings due 1989-1993	**6.8**	17.9
AMCA International Limited		
7⅜% – 12¼% Debentures due 1989-1999	**227.5**	327.5
Bank loans due 1989-1993	**84.3**	63.7
8.1% – 14% Notes due 1989-1991	**67.5**	14.2
Canadian Pacific Securities Limited		
8¼% – 9½% Debentures due 1990-1993	**45.6**	48.6
15% Guaranteed Note due 1989	**90.0**	372.0
Canadian Pacific Enterprises Limited		
Notes due 1993	**236.8**	—
Other companies	**11.8**	29.2
Discontinued businesses	**—**	579.8
Inter-company eliminations	**(453.2)**	(543.5)
	3,836.0	4,469.8
Less: Long term debt maturing within one year	**393.5**	614.6
	$ 3,442.5	$ 3,855.2

14. Long Term Debt (cont'd)

Collateral Trust Bonds of the Corporation are secured by a pledge of Perpetual 4% Consolidated Debenture Stock aggregating in the principal amount of $212.7 million at December 31, 1988 (1987 – $548.7 million).

At December 31, 1988 foreign currency long term debt, denominated principally in United States dollars, amounted to $2,454 million (1987 – $2,941 million).

Unless otherwise specified, notes payable bear interest at rates which fluctuate with money market rates.

Of the aggregate bank loans of $1,027.3 million included above, approximately $968.1 million bear interest at rates which fluctuate with bank prime or money market rates.

Annual maturities and sinking fund requirements for each of the five years following 1988 are: 1989 – $393.5 million; 1990 – $329.7 million; 1991 – $250.4 million; 1992 – $449.7 million; 1993 – $597.7 million.

15. Perpetual 4% Consolidated Debenture Stock

	1988 (in millions)				1987
Currency of Issue	Sterling	United States Dollar	Canadian Dollar	Total	Total
Issued	£ 46.8	$ 106.3	$ 163.2	**$ 390.8**	$ 746.4
Less: Pledged as collateral	—	41.3	163.2	**212.7**	548.7
	£ 46.8	$ 65.0	$ —	**$ 178.1**	$ 197.7

16. Deferred Income Credits

Deferred Income Credits include approximately $190.8 million (1987 – $188 million) from the Federal Government primarily for the rehabilitation of certain western branch lines, approximately $60.2 million (1987 – $49.1 million) from other bodies, mainly for relocation of railway lines, and approximately $80.5 million (1987 – $73.3 million) in investment tax credits. These amounts are being amortized to income on the same basis as the related fixed assets are being depreciated.

Deferred Income Credits also include approximately $49 million (1987 – $61 million) covering payments received by PanCanadian Petroleum Limited for natural gas to be delivered at future dates. These payments are taken into income when the natural gas is delivered.

17. Minority Shareholders' Interest in Subsidiary Companies

	1988 (in millions)	1987
Soo Line Corporation	**$ 141.3**	$ 144.1
Centennial Shipping Limited	**14.4**	10.9
PanCanadian Petroleum Limited	**182.3**	175.9
Canadian Pacific Forest Products Limited	**375.2**	235.9
Marathon Realty Company Limited	**1.8**	2.2
AMCA International Limited		
8.84% Cumulative redeemable retractable preferred shares	**56.7**	58.2
9.5% Cumulative redeemable convertible preferred shares	**100.0**	100.0
9.25% Cumulative redeemable retractable preferred shares	**53.8**	54.0
Common share equity	**147.9**	26.4
Discontinued businesses	**—**	331.4
	$ 1,073.4	$ 1,139.0

18. Shareholders' Equity

Preferred Shares: At December 31, 1988, the Corporation was authorized to issue 20,381,788 Cumulative Redeemable Shares without nominal or par value. No shares of this class are outstanding.

Preference Shares: 4% Non-Cumulative
Authorized: an amount not exceeding one-half the aggregate amount of Ordinary Shares outstanding.

December 31	**1988**	1987	1986
		(in millions)	
Issued:			
2,561,769 Sterling Preference Shares	**$ 4.2**	$ 4.2	$ 4.2
10,713,816 Canadian Dollar Preference Shares	**10.7**	10.7	10.7
	$ 14.9	$ 14.9	$ 14.9

Ordinary Shares: At December 31, 1988, the Corporation was authorized to issue an unlimited number of shares without nominal or par value.

An analysis of Ordinary Share balances is as follows:

	1988		1987		1986	
	Number	Amount	Number	Amount	Number	Amount
			(in millions)			
Balance, January 1	**302.8**	**$ 858.7**	299.5	$ 790.0	297.7	$ 760.5
Issued as partial consideration for purchase of Laidlaw shares (Note 9)	**12.0**	**279.0**	—	—	—	—
Issued under dividend reinvestment, share purchase, and stock option plans	**2.1**	**44.6**	3.3	68.7	1.8	29.5
Balance, December 31	**316.9**	**$ 1,182.3**	302.8	$ 858.7	299.5	$ 790.0

At December 31, 1988, Chemainus Towing Co. Ltd. (an indirect subsidiary of the Corporation) held 33,000 Sterling and 825,375 Canadian Dollar Preference Shares in the Corporation at a total cost of $452,000.

An analysis of the Foreign Currency Translation Adjustments balance is as follows:

	1988	1987	1986
		(in millions)	
Balance, January 1	**$ 176.9**	$ 228.3	$ 302.7
Effect of exchange rate changes	**(43.9)**	(39.3)	(3.9)
Change in investment in subsidiaries	**—**	(3.3)	8.4
Other (see Note below)	**(8.5)**	(8.8)	(78.9)
Balance, December 31	**$ 124.5**	$ 176.9	$ 228.3

Note: The $78.9 million in 1986 represents the amount by which the foreign currency translation adjustment arising from the Corporation's investment in CP Ships decreased as a result of the decision to make a provision for permanent impairment in the value of CP Ships' assets.

19. Stock Options

Under a stock option plan introduced during 1986, options may be granted to certain key employees to purchase Ordinary Shares of the Corporation at a price not less than 90% of the market value of the share at the grant date. Each option may be exercised after two years in respect of one-half of the number of shares to which it relates and after three years in respect of the balance. Options expire ten years after the grant date.

Simultaneously with the grant of an option, employees are also granted Stock Appreciation Rights (SARs) equivalent to one-half the number of shares to which each option relates. An SAR entitles the holder to receive payment, either in cash or Ordinary Shares, of an amount equal to the excess of the market value of an Ordinary Share at the time of exercise of the SAR over the related option price. SARs may be exercised no earlier than three years and no later than ten years after the grant date.

Where an option has been exercised as to one-half the number of shares to which it relates, any further exercise reduces the number of SARs granted on a one-for-one basis. At all times the exercise of an SAR reduces the number of shares covered by an option on a one-for-one basis.

Under a senior executive long-term incentive plan, certain senior executives of the Corporation are entitled to purchase Ordinary Shares equal in number to the share equivalents awarded under this plan. During 1988, 41,717 Ordinary Shares were purchased under this plan at the market price prevailing at the dates of purchase.

The number of Ordinary Shares authorized for issuance under the stock option and senior executive long-term incentive plans at December 31, 1988 was 5,000,000 (1987 – 5,000,000), of which 4,096,113 shares (1987 – 4,419,120) were available for the granting of future options and future share purchases under the senior executive long-term incentive plan.

At December 31, 1988, options covering the number of Ordinary Shares indicated below were outstanding:

Expiry Date	Exercise Price Per Share	Number of Shares
June 30, 1996	$ 16.813	255,944
January 31, 1997	19.875	268,368
August 31, 1997	27.250	21,568
December 31, 1997	20.563	55,934
June 30, 1998	23.188	244,618
		846,432

Options covering 120,103 Ordinary Shares were exercisable at December 31, 1988, at $16.813 per share.

A summary of option activity during 1988 is as follows:

	Number of Shares covered by Options
Outstanding at beginning of year	580,880
Granted	308,290
Exercised at $16.813 per share	(15,738)
Cancelled	(27,000)
Outstanding at end of year	846,432

20. Pensions

The Corporation and the majority of its subsidiaries have defined benefit plans which provide for pensions based principally on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by Federal or Provincial pension supervisory authorities.

Net pension expense for 1988 and 1987 for such defined benefit plans includes the following components:

	1988	1987
	(in millions)	
Service cost-benefits earned during the year	**$ 57.2**	$ 53.7
Interest cost on projected benefit obligation	**380.1**	372.6
Actual return on pension fund assets	**(458.6)**	(466.8)
Net amortization and deferrals	**118.5**	149.5
Net pension expense	**$ 97.2**	$ 109.0

The pension expense for 1988 and 1987 is based on the new Canadian standard covering accounting for pension costs and obligations which became effective in 1987. Since the standard does not provide for retroactive application of its recommendations, pension expense for defined benefit plans in 1986 has not been restated. The practice prior to 1987, which was generally to expense contributions made in the year based on actuarial valuations prepared for funding purposes, resulted in a pension expense of $157.6 million in 1986.

The following table sets forth the plans' funded status and the amounts recognized in CP Limited's consolidated balance sheet as at December 31:

	1988		1987	
	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets
	(in millions)			
Actuarial present value of benefit obligation:				
Vested	**$ 4,025.4**	**$ 66.0**	$ 3,813.9	$ 401.3
Non-vested	**45.0**	**0.8**	28.2	5.1
Accumulated benefit obligation	**4,070.4**	**66.8**	3,842.1	406.4
Effect of projected future salary increases	**651.7**	**4.4**	610.6	6.3
Projected benefit obligation (based on a weighted average discount rate of approximately 8% and salary increases ranging from 5% to 6%)	**4,722.1**	**71.2**	4,452.7	412.7
Pension fund assets at market related values	**4,723.1**	**34.5**	4,334.9	249.3
Pension fund assets in excess of (less than) projected benefit obligation	**1.0**	**(36.7)**	(117.8)	(163.4)
Unamortized portion of net obligation at January 1, 1987*	**121.1**	**11.3**	209.4	70.9
Unamortized prior service cost*	**112.1**	**1.6**	57.3	61.1
Unamortized net gain*	**(195.8)**	**(6.9)**	(152.5)	(13.1)
Prepaid (accrued) pension cost in Consolidated Balance Sheet	**$ 38.4**	**$ (30.7)**	$ (3.6)	$ (44.5)

*Being amortized over expected average remaining service life of employees, generally 15 years.

20. Pensions (cont'd)

Pension fund assets consist primarily of listed stocks and bonds. The assumed weighted average long term rate of return on pension fund assets is approximately 8%.

CP Limited also has subsidiary-sponsored defined contribution plans. Pension expense for such plans, which generally equals the employer's required contribution, was $ 6.4 million, $13.8 million and $12.4 million in 1988, 1987 and 1986, respectively.

In addition to pension benefits, the Corporation and several of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of providing these benefits is recognized by expensing the annual insurance premiums which were approximately $9 million, $11 million and $10 million in 1988, 1987 and 1986, respectively.

21. Commitments

At December 31, 1988, commitments for capital expenditures amounted to $788.5 million and minimum payments under operating leases were estimated at $669.1 million in the aggregate, with annual payments in each of the five years following 1988 of:

1989 – $141.2 million; 1990 – $89.5 million;
1991 – $73.5 million; 1992 – $61.4 million;
1993 – $49.9 million.

At December 31, 1988, unused commitments for long term financing amounted to $2,411.7 million at interest rates varying with bank prime or money market rates, with commitment fees on $2,153.4 million ranging from .08% to .375%.

Unused lines of credit for short term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to $1,109.6 million on which interest rates vary with bank prime or money market rates.

22. Subsequent Event

On March 1, 1989, Laidlaw Transportation Limited announced that it would be making a public offering of 28 million Class B non-voting shares for gross proceeds of $500.5 million. On the same date, Canadian Pacific Limited announced that it would agree to purchase such portion of the proposed public offering as may be unsold by the underwriting group up to a maximum of $350 million but in any event not less than $60.8 million. The offering is expected to close on or about March 22, 1989.

23. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1988.

24. Supplementary Data

The discussion of Canadian and United States generally accepted accounting principles and the differences between these accounting principles that affect CP Limited's net income for the years 1984 to 1988 included in Supplementary Data are an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on the Corporation's net income is summarized, the effect on the statement of changes in financial position and balance sheet not being significant.

The full cost methods of accounting for conventional oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of conventional petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at ten percent for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

The method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized and the sinking fund method of providing depreciation followed by the Real Estate and Hotels business segment in accordance with Canadian GAAP are not acceptable methods under United States GAAP. If United States accounting principles had been followed, income from land sales and gains on sale of income properties would have been recorded in total in the years that the transactions occurred and the straight-line method of depreciation would have been used.

Canadian GAAP permits deferred income tax balances to be carried forward on the balance sheet of an acquired company after a change in control, while United States GAAP requires such balances to be eliminated. Accordingly, when CIP was acquired, its deferred income tax balances were carried forward and since CIP recorded a loss in 1983 and 1982, the tax benefit of the loss carry forward has been recognized to the extent permissible under Canadian GAAP, by reducing deferred income taxes.

CP Limited follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

The principal difference between Canadian and U.S. GAAP in accounting for pension costs is in the choice of discount rate used for computing the benefit obligation and the service and interest cost component of net periodic pension expense. Under Canadian GAAP, the discount rate used represents management's best estimate of the long term rate of return on pension fund assets, whereas under U.S. GAAP the discount rate reflects the rate at which pension benefits can be effectively settled at the date of the financial statements. The impact of this difference on CP Limited's pension expense is included in the table below. The impact of the difference on the funded status of CP Limited's plans is not material.

CP Rail, a division of CP Limited, expenses interest related to the construction of assets. Under United States GAAP such interest would be capitalized as part of the cost of the asset.

The amounts reported as extraordinary items under Canadian GAAP would be included in the computation of net income before extraordinary items under United States GAAP (see Note 6).

Canadian and United States Accounting Principles (cont'd)

	1988	1987	1986	1985	1984
	(in millions, except amounts per share)				
Net income before extraordinary items – Canadian GAAP	$ 774.5	$ 636.7	$ 150.1	$ 252.7	$ 366.2
Increased or (decreased) by:					
Oil and gas	(6.2)	(2.5)	14.9	(22.2)	1.8
Real estate and hotels	(23.1)	(5.3)	(6.3)	(5.2)	(6.4)
Deferred income taxes	4.1	4.6	12.3	20.7	6.5
Foreign exchange	51.8	49.2	36.5	(28.0)	(31.7)
Pension costs	13.8	34.2	—	—	—
Interest during construction	27.1	17.0	17.4	12.9	4.0
Extraordinary items	45.6	189.6	(230.4)	—	—
Net income – United States GAAP	$ 887.6	$ 923.5	$ (5.5)	$ 230.9	$ 340.4
Earnings per Ordinary Share:					
Canadian GAAP					
Before extraordinary items	$ 2.50	$ 2.12	$ 0.50	$ 1.14	$ 1.70
After extraordinary items	$ 2.65	$ 2.75	$ (0.27)	$ 1.14	$ 1.70
United States GAAP					
Continuing businesses	$ 2.78	$ 3.14	$ 0.03	$ 1.34	$ 1.49
Discontinued businesses	0.09	(0.07)	(0.05)	(0.30)	0.09
	$ 2.87	$ 3.07	$ (0.02)	$ 1.04	$ 1.58

Quarterly Financial Information (Unaudited)	1988		1987	
	As Reported	U.S. GAAP	As Reported	U.S. GAAP
	(in millions)			
Net income before extraordinary items				
First quarter	$ 183.9	$ 211.7	$ 125.4	$ 393.5
Second quarter	230.4	257.7	152.5	152.4
Third quarter	209.2	203.8	159.7	340.7
Fourth quarter	151.0	214.4	199.1	36.9
	$ 774.5	$ 887.6	$ 636.7	$ 923.5

The new U.S. standard on accounting for income taxes (SFAS 96), which was originally to be effective for fiscal years beginning after December 15, 1988, is now not effective until fiscal years beginning after December 15, 1989. While CP Limited has not completed its study of the effect that SFAS 96 will have on its financial position as determined following U.S. generally accepted accounting principles, it expects that adoption of the standard will reduce deferred taxes and increase net income in the year of adoption.

Taxation of United States Shareholders

Under the terms of the Canadian Income Tax Act and the United States-Canada tax convention, taxable dividends paid to United States resident shareholders of the Corporation (other than tax exempt organizations) are subject to a Canadian withholding tax of 15%.

Generally, capital gains on the disposition by United States residents of securities issued by the Corporation are exempt from Canadian tax unless the securities were either held in the conduct of a Canadian business or held by a former long-term resident of Canada.

Quarterly Financial Information (Unaudited)
Statement of Consolidated Income

	1988			
For the three months ended	March 31	June 30	September 30	December 31
	(in millions, except amounts per share)			
Operating Revenues				
Goods sold	$ 1,670.1	$ 1,845.9	$ 1,675.0	$ 1,476.9
Services	1,289.0	1,411.3	1,331.2	1,316.9
	2,959.1	3,257.2	3,006.2	2,793.8
Costs and Expenses				
Cost of goods sold	1,159.2	1,279.1	1,146.6	1,032.4
Cost of services	782.5	856.9	815.3	894.7
Selling, general and administrative	369.0	378.5	383.0	286.5
Depreciation, depletion and amortization	183.8	185.1	183.6	209.5
	2,494.5	2,699.6	2,528.5	2,423.1
Operating Profit	464.6	557.6	477.7	370.7
Interest expense	120.1	111.9	105.4	114.6
Non-operating (income) expenses	(12.6)	(6.3)	(10.5)	(9.3)
Equity in income of affiliated company	—	—	(2.2)	(3.2)
Income before income taxes, minority interest and extraordinary items	357.1	452.0	385.0	268.6
Income taxes	144.2	175.8	137.1	82.7
Minority interest	29.0	45.8	38.7	34.9
Net income before extraordinary items	183.9	230.4	209.2	151.0
Extraordinary items	—	—	(10.0)	55.6
Net Income	$ 183.9	$ 230.4	$ 199.2	$ 206.6
Earnings per Ordinary Share				
Before extraordinary items	$ 0.61	$ 0.76	$ 0.66	$ 0.47
After extraordinary items	$ 0.61	$ 0.76	$ 0.63	$ 0.65

Quarterly Financial Information (Unaudited)
Statement of Consolidated Income

	1987			
For the three months ended	March 31	June 30	September 30	December 31
	(in millions, except amounts per share)			
Operating Revenues				
Goods sold	$ 1,666.1	$ 1,793.4	$ 1,758.8	$ 1,729.9
Services	1,245.3	1,337.3	1,286.4	1,391.4
	2,911.4	3,130.7	3,045.2	3,121.3
Costs and Expenses				
Cost of goods sold	1,226.1	1,270.6	1,284.0	1,167.8
Cost of services	748.0	840.7	801.8	879.7
Selling, general and administrative	345.2	361.1	305.0	346.0
Depreciation, depletion and amortization	193.8	198.2	178.5	182.0
	2,513.1	2,670.6	2,569.3	2,575.5
Operating Profit	398.3	460.1	475.9	545.8
Interest expense	129.5	128.1	133.9	123.1
Non-operating (income) expenses	3.1	(6.2)	34.6	14.4
Equity in income of affiliated company	—	—	—	—
Income before income taxes, minority interest and extraordinary items	265.7	338.2	307.4	408.3
Income taxes	123.7	163.7	125.5	166.0
Minority interest	16.6	22.0	22.2	43.2
Net income before extraordinary items	125.4	152.5	159.7	199.1
Extraordinary items	193.3	—	160.8	(164.5)
Net Income	$ 318.7	$ 152.5	$ 320.5	$ 34.6
Earnings per Ordinary Share				
Before extraordinary items	$ 0.42	$ 0.51	$ 0.53	$ 0.66
After extraordinary items	$ 1.06	$ 0.51	$ 1.07	$ 0.11

	1988	1987	1986	1985
(Dollars in millions, except amounts per share)				
Revenues				
Continuing Businesses	**$ 11,108.9**	$ 10,423.9	$ 10,636.1	$ 10,422.7
Discontinued Businesses	**907.4**	1,784.7	4,477.7	4,705.3
	$ 12,016.3	$ 12,208.6	$ 15,113.8	$ 15,128.0
Net income from:				
Transportation and Waste Services	**$ 246.8**	$ 227.4	$ 92.7	$ 103.9
Energy	**122.5**	158.7	56.7	202.9
Forest Products	**259.6**	170.0	29.2	(16.8)
Real Estate and Hotels	**102.3**	50.5	43.8	42.3
Telecommunications and Manufacturing	**19.5**	14.6	(5.2)	(3.4)
Discontinued Businesses	**23.8**	15.5	(67.1)	(76.2)
Net income before extraordinary items	**774.5**	636.7	150.1	252.7
Extraordinary items	**45.6**	189.6	(230.4)	—
Net income	**$ 820.1**	$ 826.3	$ (80.3)	$ 252.7
Total assets	**$ 17,650.8**	$ 18,000.7	$ 17,698.7	$ 21,331.5
Total long term debt	**$ 3,836.0**	$ 4,469.8	$ 5,114.7	$ 6,683.5
Perpetual 4% Consolidated Debenture Stock	**178.1**	197.7	184.6	185.0
Minority shareholders' interest in subsidiary companies	**1,073.4**	1,139.0	1,344.7	2,031.7
Shareholders' equity	**7,303.1**	6,433.0	5,753.4	6,032.5
Total capitalization	**$ 12,390.6**	$ 12,239.5	$ 12,397.4	$ 14,932.7
Per Ordinary Share:				
Net income				
– before extraordinary items	**$ 2.50**	$ 2.12	$ 0.50	$ 1.14
– after extraordinary items	**$ 2.65**	$ 2.75	$ (0.27)	$ 1.14
Dividends	**$ 0.68**	$ 0.54	$ 0.48	$ 0.48
Number of Ordinary Shares (in millions)				
Actual	**316.9**	302.8	299.5	297.7
Average	**309.1**	300.5	298.3	220.8
Rates of Return:				
Average capital employed	**8.8%**	8.1%	4.7%	5.9%
Average shareholders' equity	**11.3%**	10.4%	2.5%	4.9%
Debt: equity ratio	**32:68**	38:62	43:57	46:54

*Restated (see Note 7)

	1984	1983	1982	1981	1980	1979
	$ 9,751.3	$ 8,453.5	$ 8,150.7	$ 7,442.6	$ 5,976.8	$ 4,915.3
	4,974.5	4,386.9	4,212.4	4,958.2	4,065.5	3,303.0
	$ 14,725.8	$ 12,840.4	$ 12,363.1	$ 12,400.8	$ 10,042.3	$ 8,218.3
	$ 171.8	$ 117.9*	$ 104.7*	$ 187.5*	$ 187.9*	$ 149.5
	179.5	143.7	147.5	115.2	162.1	110.1
	(7.0)	(69.4)	(68.7)	11.4	33.5	37.8
	36.1	24.0	26.5	26.8	21.7	17.5
	(22.0)	(11.7)	32.4	45.1	52.9	22.8
	7.8	(75.5)	(60.8)	79.7	120.2	156.8
	366.2	129.0	181.6	465.7	578.3	494.5
	—	—	—	—	72.2	—
	$ 366.2	$ 129.0*	$ 181.6*	$ 465.7*	$ 650.5*	$ 494.5
	$ 18,670.7	$ 17,486.4	$ 17,162.5	$ 16,220.5	$ 12,941.2	$ 10,906.0
	$ 5,609.0	$ 5,536.4	$ 5,538.7	$ 4,647.6	$ 2,997.5	$ 2,623.6
	157.8	292.5	292.5	292.5	292.5	292.5
	2,981.3	2,660.2	2,573.3	2,464.2	2,240.2	1,742.7
	4,387.8	3,928.2*	3,881.2*	3,826.2*	3,439.9*	2,909.6
	$ 13,135.9	$ 12,417.3	$ 12,285.7	$ 11,230.5	$ 8,970.1	$ 7,568.4
	$ 1.70	$ 0.59	$ 0.84	$ 2.16	$ 2.68	$ 2.29
	$ 1.70	$ 0.59	$ 0.84	$ 2.16	$ 3.02	$ 2.29
	$ 0.47	$ 0.47	$ 0.55	$ 0.63	$ 0.62	$ 0.57
	215.0	215.0	215.0	215.0	215.0	215.0
	215.0	215.0	215.0	215.0	215.0	215.0
	7.8%	4.7%	6.3%	10.5%	13.3%	13.7%
	8.8%	3.3%	4.7%	12.8%	18.2%	18.2%
	44:56	47:53	47:53	44:56	37:63	39:61

Geographic Distribution of Net Property Investment

at December 31, 1988	Properties, at Cost less Depreciation (in millions)	Percent of Total
Canada		
Atlantic Provinces	$ 344.3	3
Quebec	1,342.3	10
Ontario	2,444.9	18
Manitoba	258.9	2
Saskatchewan	639.8	5
Alberta	2,997.8	23
British Columbia	1,905.5	14
N.W.T., Yukon & Offshore	32.7	—
Transportation Equipment	1,142.6	9
	11,108.8	84
Outside Canada		
United States	1,945.1	15
Other	55.1	—
Ocean Ships	86.0	1
	2,086.2	16
Total	$ 13,195.0	100

Ordinary Share Market Prices

	Toronto Stock Exchange				New York Stock Exchange			
	1988		1987		**1988**		1987	
	High	Low	High	Low	High	Low	High	Low
	(Canadian dollars)				(U.S. dollars)			
First Quarter	**24 7/8**	**20 1/8**	25 3/8	17 5/8	**19 7/8**	**15 7/8**	19 3/8	12 3/4
Second Quarter	**24 7/8**	**20 7/8**	25 5/8	21 3/4	**20 1/8**	**16 7/8**	19 1/4	16
Third Quarter	**24**	**20**	30 1/4	25	**19 7/8**	**16 1/8**	22 7/8	18 3/4
Fourth Quarter	**22 1/8**	**19 1/2**	28 1/4	17 1/4	**18 1/2**	**15 7/8**	21 1/2	12 3/4
Year	**24 7/8**	**19 1/2**	30 1/4	17 1/4	**20 1/8**	**15 7/8**	22 7/8	12 3/4

Transfer Agents

Montreal Trust Company
1690 Hollis Street
Halifax, N.S. B3J 3C5

53 King Street
Saint John, N.B. E2L 1G5

1800 McGill College Avenue
Montreal, Quebec H3A 3J6

66 Temperance Street
Toronto, Ontario M5H 1Y7

221 Portage Avenue
Winnipeg, Manitoba R3C 2J1

1778 Scarth Street
Regina, Saskatchewan S4P 2G1

411-8th Avenue, S.W.
Calgary, Alberta T2P 1E7

510 Burrard Street
Vancouver, B.C. V6C 3B9

Bank of Montreal Trust Company
77 Water Street
New York, N.Y. 10005

Deputy Secretary,
Canadian Pacific Limited
62-65 Trafalgar Square
London, England WC2N 5DY

Stock and Share Listings

Debenture Stock (Sterling) listed on:
London, Eng. Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Shares (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Shares (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Shares listed on:
Montreal, Toronto, Alberta, Vancouver, New York and London, Eng. Stock Exchanges.

Share Holdings

The number of registered holdings of the voting shares of the Corporation at December 31, 1988 was 69,991.

The distribution by countries of total voting rights of the Ordinary and Preference Shares at that date was as follows:

Canada	72.79%
United States	23.50
United Kingdom	1.21
Other Countries	2.50
	100.00%

Dividend Reinvestment and Share Purchase Plan

Eligible holders of Canadian Pacific Limited Ordinary Shares may acquire new Ordinary Shares through reinvestment of cash dividends and/or investing optional cash payments, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained by writing to the Vice-President and Secretary of the Corporation.

Investor Relations

Institutional investors, brokers, security analysts and others desiring financial information about Canadian Pacific should contact:

N. E. Wale
Vice-President Investor and Industry Relations
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Shareholders having inquiries or wishing to obtain copies of the Corporation's non-consolidated (parent company) financial statements, Annual Information Form filed with Canadian Securities Commissions or Form 10-K filed with the United States Securities and Exchange Commission should write to:

D. J. Deegan
Vice-President and Secretary
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Board of Directors

Lloyd I. Barber, O.C., Ph.D.
President, University of Regina
Regina

* *Michel Bélanger*
Chairman of the Board and Chief Executive Officer
National Bank of Canada
Montreal

F.S. Burbidge, O.C.
Corporate Director
Former Chairman
Canadian Pacific Limited
Montreal

* *Robert W. Campbell*
Chairman, Canadian Pacific Limited
Calgary

* *Michael G. DeGroote*
Chairman of the Board and Chief Executive Officer
Laidlaw Transportation Limited
Burlington

M. James Fielding
Chairman of the Board
Alexander Centre Industries Limited
Sudbury

† *Thomas M. Galt*
Director and Former Chairman
Sun Life Assurance Company of Canada,Toronto

Allard Jiskoot
Chairman, The Securities Board of The Netherlands
Amsterdam, The Netherlands

A.S. Kingsmill, Q.C.
Partner, Law Firm of McCarthy & McCarthy, Toronto

*† *C. Merv Leitch, Q.C.*
Partner, Law Firm of Macleod Dixon
Calgary

The Hon. Peter Lougheed, P.C., C.C., Q.C.
Partner, Law Firm of Bennett Jones
Calgary

Angus A. MacNaughton
President
Genstar Investment Corporation
San Francisco

Donald C. Matthews
President and General Manager
Highland Stock Farms Ltd.
Calgary

Stanley A. Milner
President and Chief Executive Officer
Chieftain International Inc.
Edmonton

William D. Mulholland
Chairman and Chief Executive Officer
Bank of Montreal, Toronto

* *Paul L. Paré, O.C.*
Director and Former Chairman
Imasco Limited, Montreal

*† *Claude Pratte, Q.C.*
Counsel, Law Firm of Stein, Monast, Pratte & Marseille, Quebec

*† *C. Douglas Reekie*
Vice-Chairman of the Board
CAE Industries Ltd., Toronto

Thomas G. Rust, LL.D.
Chairman
Canada Harbour Place Corporation
Vancouver

R.D. Southern
Deputy Chairman, President and Chief Executive Officer, ATCO Ltd.
Calgary

* *W.W. Stinson*
President and Chief Executive Officer
Canadian Pacific Limited
Montreal

Allan R. Taylor
Chairman and Chief Executive Officer
The Royal Bank of Canada
Toronto

Jean Casselman Wadds, O.C.
Corporate Director, Prescott

* Member of the Executive Committee
† Member of the Audit Committee

Officers

Robert W. Campbell
Chairman, Calgary

W.W. Stinson
President and Chief Executive Officer
Montreal

R.K. Gamey
Executive Vice-President, Toronto

J.F. Hankinson
Executive Vice-President, Toronto

G.F. Michals
Executive Vice-President and Chief Financial Officer, Montreal

I.B. Scott
Executive Vice-President
Montreal

K.S. Benson
Vice-President Personnel and Administration, Montreal

D.J. Deegan
Vice-President and Secretary
Montreal

W.R. Fatt
Vice-President and Treasurer
Toronto

C.R.O. Munro, Q.C.
Vice-President Law and General Counsel, Montreal

H.M. Romoff
Vice-President – Europe, London

J. Thomson
Vice-President and Comptroller
Montreal

D.G. Toole
Vice-President Financial Analysis and Planning, Montreal

N.E. Wale
Vice-President Investor and Industry Relations, Montreal

Directorate

Mr. Ray D. Wolfe, C.M. retired as a director of the Corporation at the Annual Meeting of Shareholders held on May 4, 1988. Mr. Wolfe had been a director for more than sixteen years and served on the Executive, Pension Trust Fund, Nominating and Management Resources Committees of the Board. The directors desire to record their recognition and appreciation of the significant contribution Mr. Wolfe has made to the affairs of the Corporation during his tenure as a director.

A copy of the 1988 annual report of each of the following companies can be obtained by writing to its Secretary at the address shown below:

Soo Line Corporation
Soo Line Building
Box 530
Minneapolis, Minnesota 55440

Laidlaw Transportation Limited
3221 North Service Road
Burlington, Ontario
L7N 3G2

PanCanadian Petroleum Limited
PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta
T2P 2S5

Canadian Pacific Forest Products Limited
1155 Metcalfe Street
Montreal, Quebec
H3B 2X1

Marathon Realty Company Limited
Suite 1100, Citibank Place
123 Front Street West
Toronto, Ontario
M5J 2M2

Canadian Pacific Hotels Corporation
One University Avenue
Suite 1400
Toronto, Ontario
M5J 2P1

AMCA International Limited
Dartmouth National Bank Building
Hanover, New Hampshire 03755

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Québec, Canada H3C 3E4

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